POLITICAL ECONOMY, A MARXIST TEXTBOOK

By John Eaton

2nd edition, revised throughout.

This textbook presents within a single volume a comprehensive survey of Marxist economics. It was first published in 1949, and already enjoys an established reputation. The new edition has been revised throughout, and an entirely new concluding chapter added.

Political Economy was written in consultation with a number of leading Marxists and may be regarded as an authoritative work. It deals with the forms of economic organisation that preceded capitalism, with the origins of capitalism and of the industrial working class, and with fully developed capitalism and imperialism. The concluding chapters — on monopolies, the general crisis of capitalism and the economic situation after World War II—are introduced by a clear and comprehensive treatment of the causes of capitalist crises.

Marxist economics is presented in the setting of British experience and full use is made of statistical and other factual evidence drawn from a wide variety of sources.

POLITICAL ECONOMY

The following contractions have been used:

Marx: *Selected Works* (2 Vols.): M.S.W.
Lenin: *Selected Works* (12 Vols.): L.S.W.
Essentials of Lenin (2 Vols.): E.L.

POLITICAL ECONOMY

A Marxist Textbook

by

JOHN EATON

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FOREWORD

This textbook of Marxist Political Economy aims to be of direct practical service to the Labour movement in its struggle to put an end to capitalism and build a Socialist Britain. The Marxist theory is presented as far as possible in the setting of British development and experience; non-Marxist views on the principal questions are also dealt with in so far as the limits of a textbook allow. It is intended for individual study as well as for use in classes and for general reference.

The textbook is the result of two years' work by a group of Marxist economists, who have had the help of historians and scientists, as well as other economists, in the revision of various chapters. It is a collective work, and has been discussed collectively at every stage; but the main responsibility has been that of the secretary of the group, John Eaton, who is the author of the final text

The opportunity of a reprint has been taken to make some alterations and improvements and to bring the final chapter up to date.

May, 1952. EMILE BURNS.

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INTRODUCTION

POLITICAL Economy explains how men get their living; it deals with the production and distribution, within human societies, of the material needs of life—food, clothing, shelter, transport, etc. It is not—directly at least—concerned with the technical side of production, but with the relations between men in the process of production and exchange. The process of production —the labour process—is the process by which labour converts the materials supplied by nature into wealth, the process of changing nature to serve the needs of man. "It is the everlasting, nature-imposed condition of human existence", writes Marx, "and therefore, is independent of every social phase of that existence, or, rather, is common to every such phase." *(Capital, Vol. I, p. 163-64.)*

Political Economy is concerned with what we call the system of production, when, for example, we speak of the "feudal system" or the "capitalist system". For us the matter of central concern is the capitalist system and the more elementary forms of commodity production out of which it is born.

Ever since the dawn of history men have carried on production not individually but together with other men. In the earliest times of savagery men hunted in bands and there was a rough division of tasks between men and women. Today the co-operation of many people is involved in the production of the commonest objects. Consider, for example, how many workers in widely divided parts of the world have contributed to the production and distribution of a pencil, a knife, a chair, and the hundred and one things to be found in any house or factory.

For many thousands of years primitive men lived together in classless communities; the societies which emerged from this "*primitive Communism*" have been societies divided into opposed classes, those who live on the fruits of other men's labour and those who must surrender to others the products of their labour—the exploiters and the exploited.

Capitalism is a system of social production within which there are exploiters and exploited — the capitalists and the workers. Exploitation is for the working class its starting point in the study of political economy. The need and desire to study social science, to study how human society is organised and how its organisation changes and can be changed, develops out of the living experience of exploitation, as a part of the struggle against exploitation. For the capitalist, of course, the starting point is the problems of management, of government, etc.

It is this difference of standpoint that accounts for the profound gulf between "capitalist economics" and "Marxist economics". In

class society the standpoint that is normally dominant in its learned institutions is that of its ruling class. For example, in Britain academic economics is predominantly capitalist economics. It is not surprising, therefore, that the student of such economics is puzzled on turning to Marxist economics which has such a profoundly different point of view.

Capitalist economics seeks to explain the problems that confront the capitalist in operating a system of production for profit. It is anxious *to portray the capitalist system in the most favourable light, to hide the fact that it is a system of exploitation, to hide the fact that it is an historically transitory system, that had a beginning and in due course must have an end.* Capitalist economics, just because it speaks for the capitalists and starts from the standpoint of capitalism, is afraid of the truth; for the truth has no consolation to offer to capitalism. When capitalism was still a progressive force, thrusting aside the rotting remains of the older systems that obstructed it, its spokesmen had no need to fear the truth. That was the period when the great works of such men as Adam Smith and Ricardo were written. Today things are different; love of truth and defence of capitalism are not compatible, for the truth is that capitalism is an old and dying system that encumbers the path of human progress. Marxism, however, is not afraid of the truth since it aims to remove the obstacles that obstruct progress. It is the theory of the working class seeking to know the nature and causes of its exploitation, to whom it is welcome news that capitalism is a transitory system and that its hated exploitation will come to an end. Its concern is only to learn how the end of capitalism is to be brought about and how it can be accelerated. Thus political economy that sets out from the standpoint of the working class, that deals fearlessly with the problems that confront the working class, has no need to baulk at the truth.

The study of change is the very essence of Marxist political economy. It is, says Lenin, "the science dealing with the development of historical systems of social production". Today in Britain our main concern is with the capitalist system in which we live. It is necessary to find out not only how it works at one point of time, but also how it came into being, how and why it changes, how and why it decays, and how it must and can be replaced by a new economic system. In short, our object is to find out "the law of motion of modern society" (Marx, *Capital*, Vol. I, p. xix) in order that we may hasten the end of capitalism and bring in Socialism.

By contrast, capitalist economists neglect change and development. Notions they derive from the capitalist society in which they live they apply to all past and future forms of society. Social revolution in the sense of fundamental change in the economic basis of human society and its class relations is never brought into their reckoning. They propound their theories as though they were true

of all time, as though capitalist conditions had always existed and must always exist. But, in fact, things are otherwise. History shows change and development in social production and distribution. There were the days when primitive man got his living by hunting and fishing and gathering the food that grew wild; there were the days of crude agriculture with hoes and wooden ploughs; the days of the hand-loom and the spinning wheel. Today large-scale machine production in factories prevails, with electric power and air transport; tomorrow there will be atomic power and other new applications of science to production. With these changes in the technique of production, *the relations of men and of classes have also changed; and the laws of social development have changed.* There were the days of primitive communism when all men shared in comradeship an existence of uncertainty and miserable poverty; there were the days of the slave and the slave-owner; the days of the feudal lord and the serf who worked and tilled his land for him. Today society is divided into capitalists and workers; tomorrow there will be a Socialist world in which capitalists are no more—and the first dawning of this Socialist world is to be seen in the U.S.S.R.

Marxist theory does not merely describe what exists at the moment, but also the change that is going on and the reason for this change. It is important to show what is coming into being and developing and what is dying and going out of existence, and to explain the economic laws of social development and the circumstances that precipitate revolutionary changes in the economic life of societies, such as the overthrow of feudalism brought about by the French Revolution of 1789, or the overthrow of capitalism in Russia brought about by the Revolution of November 1917.

Capitalist economists deny, neglect or disguise capitalist exploitation and argue that there is no opposition of interests between the working class and the capitalist class. Marxists, on the other hand, recognise that opposed and conflicting forces exist everywhere in nature. In human society they see not only the struggle of man with nature but also—within "recent" times, that is the last four or five thousand years—the struggle of opposed classes which acts as a mighty agent of social change. This struggle of classes is of first importance in the study of political economy and provides the key to understanding the "law of motion" of capitalist society.

Capitalist economists treat the study of economics in isolation from other aspects of social life; they, as it were, separate off economic events from the political set-up in which they occur and from the historical process in which modern society has developed. Marxists, on the other hand, look for the connections between things as they exist in the real world. The scientific method that they apply to the study of processes of change in nature generally, that is, the dialectical method,* they apply also to human society.

* For a description of the dialectical method and the philosophical background of Marxism, the reader should consult Stalin's *Dialectical and Historical Materialism*.

"It is easy", writes Stalin (*Leninism*, p. 595), "to understand how *immensely* important is the extension of the principles of the dialectical method to the study of social life and the history of society. If there are no isolated phenomena in the world, if all phenomena are interconnected and interdependent, then it is clear that every social system and every social movement in history must be evaluated not from the standpoint of 'eternal justice' or some other preconceived idea, as is not infrequently done by historians, but from the standpoint of the conditions which gave rise to that system or that social movement with which they are connected."

Political economy reveals how, with changes in the technique of production, the relations of men and classes change. Basing itself on a materialist, scientific, dialectical view of the world, it explains the law of motion of society. It forms the very kernel of Marxist and Leninist theory.

But what purpose does Marxist theory serve? It serves to guide the actions of the working class in its struggle to overthrow capitalism and to take power into its own hands. It does not merely explain that class struggle is the agent of social change; it arms the working class for action to change society, it arms the political leaders of the working class with resolute conviction based on scientific knowledge; it enables the working class to advance in its struggle to wrest power from the capitalist class. Marx showed clearly enough the aim and purpose of his unremitting toil in hammering out a scientific theory of political economy when, writing to a fellow Communist (M. Becker in Geneva) to say that he had delivered to the printer the manuscript of the first volume of *Capital*, he said: "This, without doubt, is the most terrific shell that has ever been fired at the head of the bourgeoisie."

Marx was first and foremost a fighter; his intellectual powers and genius were used not for their own sake but to arm the working class with the true compass of a scientific socialist theory. He fought to overthrow capitalism because by that alone, he knew, could poverty and oppression be ended. In 1867 he wrote as he struggled to finish *Capital*: "I had to use *every* moment in which I was capable of work in order that I might finish the task to which I have sacrificed my health, my happiness in life and my family. . . . If one chose to be an ox one could, of course, turn one's back on the agonies of mankind and look after one's own skin. But I should really have regarded myself as *unpractical* if I had pegged out without completely finishing my book, at least in manuscript."

Marxist theory, is, then, a guide to, indeed a living part of, the struggle of the working class to free mankind from capitalism and, by winning state power, to lay the foundations of Socialism and classless society. Without a revolutionary theory, said Lenin, there is no revolutionary movement. Political leaders whose vision is not made clear by Marxist theory must lead the working class movement astray; but armed with Marxist theory the working class is

invincible and, however long the way and however bitter the struggle, the victory of Socialism is assured.

The study of Marxist theory is therefore essential in order that one may be equipped with scientific knowledge as a basis for action, that one may have the will and wit to fight for Socialism, that one may know that in this period of world transition from dying capitalism to young and living Communism, there is no way forward to a classless society but by carrying the class struggle at home and in the world arena to its conclusion. "Hitherto", wrote Marx and Engels one hundred years ago in the *Communist Manifesto,* "every form of society has been based ... on the antagonism of oppressing and oppressed classes. But . . . the bourgeoisie is unfit any longer to be the ruling class in society and to impose its conditions of existence upon society as an over-riding law. It is unfit to rule because it is incompetent to assure an existence to its slave within his slavery, because it cannot help letting him sink into such a state, that it has to feed him, instead of being fed by him. . . . The advance of industry, whose involuntary promoter is the bourgeoisie, replaces the isolation of the labourers, due to competition, by their revolutionary combination, due to association. The development of modern industry therefore cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable."

CHAPTER I

THE PLACE OF CAPITALISM IN HUMAN HISTORY

Primitive Communism—Commodities and Private Property—Slavery—Feudalism —Social relations and why they change.

Primitive Communism

FOUR OR FIVE hundred thousand years ago there was beginning to appear upon the earth a new kind of ape, an ape that used his forepaws more freely than the other apes. Indeed, his forepaws were no longer paws but hands in which he grasped sticks and stones which served him as crude tools. This was a development of tremendous importance. It is the making of tools and the activity of production, shaping nature to serve man's needs and purposes, that distinguishes man from other animals. Thus the "man-like" ape came to move about not on four feet but erect on his hind legs, and developed a larger brain than his monkey cousins. He became man —the "tool-making animal".

The history of man proper covers a span of more than fifty thousand years. For the first seven-eighths of this period he lived in savage communities. His first tools were the spear and the hunting trap that he used against his prey. With fire he warmed himself and cooked his food. His implements were made of sticks and stones, and by " flaking " flints he made points for his spears and instruments with which to prepare his food and make his clothes from the skins of the beasts he slew. Such vegetable foods as he ate he picked wild as they grew. In the course of time, the instruments of hunting were improved; the bow and arrow, the fishing net, and the canoe and paddle were invented. Man learned how to make artificial dwellings to replace the caves and rocks that had in earlier times given him shelter. These savage communities hunted in bands and shared in common the spoils of the chase. The only division of labour was that between the sexes, the men hunting and making their weapons, the women controlling the home, gathering and preparing the food, making clothes and so forth. Such, in briefest outline, was " primitive communism " in its early stages; there was no exploitation of man by man but the material conditions of life were poor and the fruits of men's labour barely sufficed to provide the means with which to continue life.

For almost fifty thousand years mankind continued to live in this state of primitive savagery. However, in the course of time, some tribes of men (the first of these, it is believed, dwelt in Asia) developed new means of getting their living which were destined to cause great changes in the manner of man's life and the relations of men to one another. Instead of killing the beasts they hunted, they captured them and kept them alive. Thus they had food in reserve to eat when they wanted it and were the less dependent on the day-to-day fortunes of the chase. They learned also to grow

food that they and their beasts needed instead of gathering it where it grew wild. With the capture of animals came also breeding to suit the needs of man.

In this way primitive agriculture began to develop and with it man's way of life changed. In places some differentiation began to develop between the tribes; in particular that between the backward tribes without herds whose main form of production was hunting and the pastoral peoples or "farmers". The latter no longer moved from season to season into new hunting grounds but lived in more settled farming communities which moved only in search of new and more fertile land. These pastoral peoples could regularly produce a surplus above their immediate needs and in their cattle they had a form of property in which their wealth could be accumulated. Surpluses could be exchanged with other communities and some division of labour developed between the pastoral peoples and the backward tribes. This provided a basis for regular exchange.

This stage of society in which communities of men began to sow seed and rear cattle on the land they shared in common prevailed for some two and a half thousand years (5500 B.C. to 2000 B.C.).

In this more settled farming existence communities of men tended to become larger. Man began to calculate the seasons of the year more carefully so that he might the better control his crops. In the valleys of the Nile, the Indus, and the Euphrates, the value of the flood waters as a means of increasing the fertility of the soil was learned, and growing communities in these areas began to work together to control the waters by means of irrigation. From this came great increases in the supply of food, but it involved more organisation of human effort. More metals were discovered and the ways of working them were learned. The art of alloying metals was discovered. New crafts were developed, such as wheel-made pottery, wheeled vehicles, sailing vessels, the making of bricks, and the plough with metal coulter. These advances were possible only as the result of greater specialisation; they made manifest a further great division of labour as between agriculture and handicrafts. This was of decisive importance; it resulted in more and more being *produced especially for exchange*, that is, *commodity production*. "The advent of private property in herds of cattle and articles of luxury led", writes Engels, "to exchange between individuals, to the transformation of products into *commodities*. Here lies the root of the entire revolution that followed. When the producers no longer directly consumed their product but let it go out of their hands in the course of exchange, they lost control over it. . . The possibility arose that the product might be turned against the producers, used as a means of exploiting and oppressing them" (*Origin of the Family,* Chapter V).

When in earlier times primitive tribes went to war they sometimes killed and ate their captives, but could in no other way gain advantage from them. Enslave them or exploit them they could not since

in those times a man could produce no more than the bare sufficiency *to maintain his own existence. No surplus was produced and so there was no possibility of exploitation. Now, however, things had* changed. Man produced with his new tools, his new crafts, and his new methods of farming more than his day-to-day needs; a surplus was produced and commodity-exchange was developing. Under these changed circumstances captives in war could be used to produce wealth for their captors.

Men were made slaves. They became commodities entering into exchange. They were fed and cared for as a farmer cares for his cattle. They received the bare necessities of life; but they produced more than they received. All that they produced belonged to their owners, who were richer by the difference between what their slaves produced and what they gave them in food and clothing.

Commodity-exchange and the new forms of property that came with it led also to the enslavement of men within the tribe; it provided, too, the basis for the development of class divisions within the society of " free men "; ruling castes and their officials exacting tribute from the peasant producers and craftsmen; usurers and debtors; rich and poor. A class of merchants also began to appear for the first time, " a class of parasites . . . who . . . skim the cream off production at home and abroad, rapidly amass enormous wealth and corresponding social influence " (Engels).

For primitive man property had had little significance. Personal rights in weapons, vessels, bracelets, and like objects were recognised in primitive communism, but hunting grounds were held in common and food enjoyed in common. With the development of agriculture, though the land was still deemed the common property of the tribe, its private tenure began to develop. In early times the practice arose by which families would be annually allotted plots for their own use, while pasture land was still used in common. The fiction that the land belonged to the tribe was fostered long after this had ceased in practice to be so, and when communal ownership had in fact turned into its opposite.

Primitive communist society had no internal antagonisms and its social organisation was controlled by no coercive power other than public opinion. " It was destroyed by the division of labour and by its results, the division of society into classes. Its place was taken by the *State*. . . The State . . . is the admission that . . . society . . . is cleft into irreconcilable antagonisms which it is powerless to dispel. . . . A power . . . became necessary for the purpose of moderating this conflict . . . and this power, arising out of society, but placing itself over it, and increasingly alienating itself from it, is the State " (Engels, *Origin of the Family*, Chapter IX).

Civilisation and Slave Society

Civilisation, which is " that stage of society in which division of labour, the resulting exchange between individuals, and the production of commodities which combines the two, reach their fullest de-

velopment and revolutionise the whole of hitherto existing society" (Engels, *Origin of the Family*), first began to appear on the banks of the Nile and the Euphrates (and probably at about the same time in India and China also). Later there arose the great slave civilisation of Greece which in its turn succumbed to the Roman Empire, which in the first two centuries A.D. was master of the whole civilised world apart from China and the Far East. With the development of class society and new forms of property there developed the instruments of government by which the exploiting classes maintained themselves in power; the armies and police forces, the courts of justice, officials and tax-collectors, the whole apparatus of force and administrative control which protected the wealth and enforced the privileges of the dominant class. There appeared also new religions and new gods, gods who were "like men writ large", gods of power who ruled in heaven like the emperors who ruled on earth.

The great antagonism of the ancient world was that between the slave-owners and the slaves who were the source of their wealth; but the importance of the antagonisms amongst the many classes of "freemen" must not be overlooked. For example, in Rome there were from earliest times conflicts between the privileged patricians and the under-privileged plebeians. In later times new conflicts developed within Roman society between the wealthy landowners, merchants, and tax-gatherers on the one hand and the impoverished farmers and the city mob, the *proletarii*, on the other.

At the base of the social pyramid, however, stood the slave workers. The slave worked dully and grudgingly with the fear of his master's lash as his only incentive. His lot (if we except the more favoured household slave) was one of poverty and squalor; in one respect, however, he was more fortunate than the "free" worker in capitalist society—he had the security of belonging to his master who, to preserve the value of his own property, had to continue to provide his slave with the necessities of life.

The Break-up of the Ancient World

The potentates of the ancient world did not look to improved methods of production as a source of increased wealth, but to conquest of new territories from which the supply of slaves was increased and from which taxes and dues were extracted. The wealthy slave-owners and the privileged officials who reaped the fruits of their victories constituted only a small fraction of the population of the imperial power. In the Roman Empire, for example, the "free" peasantry profited nothing by the great victories of Roman arms. On the contrary, they were ruined by compulsory service in the army and in consequence were often driven by debt from their farm lands, which fell into the hands of the large proprietors and became part of the great estates worked by slave labour. In the towns the use of slave-labour tended more and more to oust the free craftsman from his livelihood. In this

way great masses of the "free" population became impoverished and without means of earning a living. New conquests provided only temporary relief; though they enriched the narrow caste of officials, tax-gatherers, and merchants who followed in the wake of the Roman armies and even though they provided a means from which a "dole" could be paid to the impoverished masses of the metropolis, they also sowed throughout the provinces of the Roman Empire the seeds of the same decay that was destroying Rome itself. The dull and grudging labour of the slave hordes that conquest provided could barely suffice to sustain the vast edifice of Roman rule; and, moreover, the spread of slave labour also spread ruin and destruction amongst the craftsmen and peasants despite the greater productivity of their free labour.

The Roman Empire was shaken by periodical slave revolts; it was threatened ever by the revolt of subject peoples; embracing, as it did, a debt-ridden peasantry, a property-less city mob, wealthy merchants and usurers, great landowners and privileged officials and nobles, it was ceaselessly torn by strife between these several classes.

Feudalism (See also Chapters IV and VII)

Rotten already with internal decay, the powerful and highly civilised Roman Empire was finally destroyed by the invasions of the northern barbarians. In the disintegration of the ancient world serfdom (see below) of a sort developed on the great estates replacing slave-exploiting agriculture and crafts. Moreover the tribal society of the invading Teutons was itself in course of change; a warrior aristocracy was gaining domination and forms of serfdom were developing also *within* the tribal society. In the course of a prolonged period of time new productive forces developed—improved methods of working iron, the iron plough, the loom, and improved methods of farming—and corresponding to these new forces of production a new type of society, feudal society. This new society was in the main agricultural, and in the countryside the labour of the slave was replaced by that of the serf.

The serf stood half-way between the slave and the free man. His lord did not have over him the power of life and death; but neither was the serf free to do as he willed or go as he willed. From the land that he cultivated he provided the means of his own subsistence; but he also had to work for his lord—so many days for himself, so many for his lord. He "possessed" land in the sense that he had "his own piece of land" from which to get his living, but he had to stay on the estate where he lived; he was "tied to the land". If the estate passed to other hands the serf passed with it to the new lord. In so far as he worked for himself, he reaped the fruits of his own labour and had an incentive to increase production, which the slave did not have. His labour was therefore more productive and efficient. His main means of production—the land—he did not, however, "possess" in the sense that his feudal lord could dispose of it together with the serf "attached" thereto. But

the implements which he used to work the land were his own (as much at least as the serf's own person was his own).

"The new productive forces", says Stalin, speaking of feudalism (*Leninism*, p. 612), "demand that the labourer shall display some kind of initiative in production and an inclination for work, an interest in work. The feudal lord therefore discards the slave as a labourer who has no interest in work and is entirely without initiative, and prefers to deal with the serf, who has his own husbandry, implements of production, and a certain interest in work essential for the cultivation of the land, and for the payment in kind of a part of his harvest to the feudal lord."

Such was the main form of exploitation in feudal society. The fact and the extent of exploitation was open for all to see; every serf knew how many days' (or how much) work he did for himself and how many (or how much) for his master. To cloak and justify this exploitation was the special task of the Church (which itself drew great wealth from the labours of its serfs). The Church taught the virtues of subservience and depicted a heavenly hierarchy governing the universe in much the same way as the feudal system dominated the lives of men on earth. Nevertheless revolts by the serfs against the power of the feudal lords were frequent and developed at times into widespread rebellion, as witness Wat Tyler's revolt in England in 1381, the Hussite wars in Bohemia in the fifteenth century, and the Peasant War in Germany in the sixteenth century.

Production on the feudal estates was in the main self-sufficient, that is to say, food was grown, clothes were made, and so on, by those who lived on the estates *to meet the needs of the local population.* Production was mostly for use, not for sale. However, part of the surplus would be sold by the nobles to buy luxuries for themselves. In the course of time, trade and transport developed, and the appetite of the nobles for luxuries and wealth in the form of money increased.

Trade gave an impetus to new crafts, new knowledge about the working of metals, new specialisation and division of labour, in short, to the new forces of production which were developing. The power of the towns was growing. Great wealth was being accumulated by individual merchants. However, ultimately the growth of trade was to lead to the disintegration of feudal society. The struggle of classes was intensified and this further accentuated the economic decay of feudalism. The whole structure of feudal society —the feudal productive relations of lord and serf on the land, and in the towns the guild system with all its restrictive regulations— acted as a fetter obstructing the new forces of production which were developing within disintegrating feudalism. Feudal society was being challenged by a new social system that was struggling to be born out of the old, a new social system in which a new ruling class and new forces of production, already growing within the womb

of the old society, would be freed to expand and develop. That new social system was *capitalism.* (The origin of capitalism out of feudalism is more fully treated in Chapter III.)

Productive and Social Relations

It may be seen from the brief sketch which has been given that forms of society differ not only in that different methods of production are used, but also in that the relations between men and between classes, men's *social relations*, are different. " These social relations ", writes Marx, " into which the producers enter with one another, the conditions under which they exchange their activities* and participate in the whole act of production, will naturally vary according to the character of the means of production. . . . Thus the social relations within which individuals produce, the social relations of production, change, are transformed, with the change and development of the material means of production, the forces of production. The production relations in their totality constitute what is called the social relations, society, and indeed a society at a definite historical stage of development, a society with a special distinctive character. Ancient society, feudal society, bourgeois society are such totalities of production relations, each of which at the same time denotes a special stage of development in the history of mankind." (Marx, *Wage-Labour and Capital,* p. 28, M.S.W., Vol. I, p. 264.)

Past forms of society linger on into the present. Traces of some primitive communistic societies and of slave society lingered on within feudalism, and traces of feudalism and earlier forms of society linger within capitalism. Moreover, old forms of society continue to exist side by side with the new; today there are in different parts of the world savage and primitive communistic societies, feudal societies, capitalist societies, a socialist society, and societies in transition to socialism.

How and Why Society Changes

The history of mankind falls into distinct stages of development. For a period of time one form of society (a " totality of social relations ") dominates and then is supplanted by a new form of society, new social relations. Thus primitive communism gave way to the ancient slave states, to the empires of Greece and Rome, and the great empire of Rome was in turn supplanted by feudal society. Marx was the first to reveal that the underlying cause of these social changes was change in the forces of production which are twofold in character, that is, the *instruments* used and the *people*, with their skill and experience, to use them. Stalin has defined the forces of production as follows: " The instruments of production wherewith

* We shall see later that exchange of products only occurs in some forms of society; exchange of *activities*, i.e., division of labour, occurs in every form of society.

material values are produced, the people who operate the instruments of production and carry on the production of material values thanks to certain production experience and labour skill—all these elements jointly constitute the productive forces of society" (*Leninism*, p. 606).

The following brief table of inventions signposts the development of man's productive forces and the social development that has gone with them in European civilisation.

(For fuller information on the development of tools and machines the reader is referred to "Men, Machines, and History", by S. Lilley—published by Cobbett Press—from which the following notes are taken.)

Some important inventions:	*Date*	*Predominant Social System*
Agriculture		
Hoe, sickle, pottery, spindle, loom.	5550-4250 B.C.	
Smelting and casting of copper.	4250-3750 B.C.	PRIMITIVE COMMUNISM
Wheeled vehicles, plough, harness, sail, potter's wheel, balance.	3750-3250 B.C.	
Bronze, bellows, developed tools for many handicrafts.	3250-2750 B.C.	
Spoked wheels.	1800 B.C.	
Smelting and effective use of *iron.*	1400-1100 B.C.	
Many improved and more specialised tools for handicrafts and farming—pulley, sheep shears.	700-450 B.C.	
[Draw loom, China.]		ANCIENT SLAVE SOCIETY
Screw of Archimedes, cranes, heavy plough, nail-making anvil, wire-drawing blocks, more general use of animal power.	250-100 B.C.	
Carpenter's plane, watermill, screw press, shears with block and tackle.	100-0 B.C.	
[Chinese harness.]		

Overshot water-wheel.	about A.D 475	
[Block printing and stirrups in China, A.D. 550-650]		
Modern saddle harness in Europe. Horseshoe. Modern draft harness.	*A.D. 850-950*	
[Persian windmill, A.D. 950]		
[Movable type, China, A.D. 1041]		
European windmill, woodcuts for letters, water-power for fulling, crushing, sawing, and tilt-hammer. Magnetic compass. Completed evolution of harness; generalised use of animal-power.	A.D. 1050-1225	FEUDALISM
Mechanical clock, modern plough, modern rudder, block printing in Europe, lathe, wire-drawing machine, *cast iron.*	A.D. 1225-1400	
Spring-clock, railways at mines, knitting machine, pendulum clock (1641).	A.D. 1500-1650	
Newcomen engine (1712), smelting with coke, flying shuttle (1733), carding - machine (1748), chronometer (1766), spinning jenny (1768), Crompton's mule (1779), Watt's rotative engine (1781), balloon (1783), Maudslay's improved lathe (1794), Stephenson's first locomotive (1814), water turbine (1827), electric bell (1831), telegraph (1837), turret lathe (1845), Bessemer steel (1856), steam turbine (1884), etc., etc.	A.D. 1650 and after	CAPITALISM

(*Inventions shown in brackets* [ ] *were outside the stream of development of European civilisation*)

Why is the history of society so clearly marked off into distinct and definite stages? Why does the form of society change abruptly and violently rather than smoothly and gradually? In short, what is the reason and cause of *social revolution*? Marx's answer provides a key to the scientific understanding of history: as the forces of

production change, he says, they are restricted and come into conflict with the social relations, within which they are developing, the old society holds back the new, the class that is rising to power *comes into conflict with the class that holds power. The hampering of the development of the exploited class becomes apparent in more open and more violent clashes of class forces. Only by revolution and the new social relations that it brings into being can the new forces be freed.*

"At a certain stage of their development, the material forces of production come into conflict with the existing relations of production, or—what is but a legal expression of the same thing—with the property relations within which they had been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes the period of social revolution." (*An Introduction to the Critique of Political Economy:* M.S.W., Vol. I, p. 356.)

CHAPTER II

COMMODITY PRODUCTION

The commodity is the seed of capitalism—Commodities have use value and are products of labour—Exchange value determined by average socially necessary labour-time—Abstract and Concrete Labour—Prices and why they change—Money and its functions—The process of circulation.

THREE main features give capitalism its essential character These are as follows:

(1) Wealth is concentrated in the hands of a few people (the *capitalist class*) who own the means of production, that is, raw materials, factories, machines, etc., as well as wealth in money form.

(2) Wide masses of the people have no means of getting a living except by selling their power to work for wages (this class of propertyless workers Marx calls the *proletariat*).

(3) Virtually all production is not for the personal use of the producers, but for exchange, for sale on the market. Goods produced for exchange are termed *commodities*. Under capitalism, therefore, *commodity production* prevails.

These features of capitalism did not suddenly appear from nowhere; they developed within pre-capitalist society over a long period of time. Chapter III will deal with the coming into being of the two main antagonistic classes within capitalist society, the capitalist class and the proletariat. Here we deal with the development of commodity production, which had its origin within primitive communist society and accelerated its disintegration, which hastened social change in the ancient world and in its turn played no small part in the disintegration of feudal society. Where commodity production prevailed, man lost control of it and was placed at the mercy of blind economic forces. It will be remembered that Engels said that in the first transformation of products into commodities lay the root of the entire revolution that followed. *Capitalism is the culminating stage in the rule of the commodity.*

Simple Commodity Production

Production of goods for exchange stands in contrast to production for use, e.g. by the tribe, household, or estate producing them. As has been explained, goods produced for exchange are called "*commodities*", and commodity production arises from the division of labour and both fosters and is fostered by the division of society into classes. For many centuries commodity production existed alongside "production for use", which remained the main source of supply, and was supplemented only to a minor degree by the exchange of commodities. A substantial part of the commodities entering into exchange consisted of products produced by slave labour belonging to the slave owners, but from the earliest times,

right up to modern times, independent " peasant " producers and craftsmen have played an important part in the production of goods for exchange, though the methods of production, relations to other types of production, and the relative importance of the independent producers have varied very much at different times and at different places. The production and exchange of goods by small independent producers who own their means of production is called *simple commodity production.*

The Commodity—" The Seed of Capitalism "

" The wealth ", writes Marx, in the opening words of *Capital,* " of those societies in which the capitalist mode of production prevails, presents itself as an ' immense accumulation of commodities ', its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity " (*Capital,* Vol. I, p. 1).

Use-Values

In order that goods may be exchanged, they must be useful to somebody; they must satisfy human wants. A thing which cannot be used for any purpose, obviously cannot be exchanged for a useful article. This characteristic of usefulness, that is, satisfaction of human wants, is called *use-value.* A commodity, therefore, must have *use-value.*

It is important to be clear what the expression " human wants " means in this definition of use-value. Men need food, shelter, clothing, protection, and clearly the goods by means of which these needs are satisfied have use-value; but from the earliest stages of his history, man has felt a need for art, ornament, entertainment, ceremonies and rites, drugs and stimulants, and so forth. The material goods used in the satisfaction of such wants have use-value (in the sense we here use the term) every bit as much as the goods that satisfy physical wants. " The nature of such wants ", says Marx (*Capital,* p. 1), " whether, for instance, they spring from the stomach or from fancy, makes no difference." Likewise, wool, wood, shears, tools, and other implements and materials used in production have use-value. Clearly the needs and the wants of man defined in this broad way vary very greatly for different countries, times, and classes. With the whys and wherefores of these variations we are not here concerned; all that matters now for us is that to become a commodity a thing must satisfy some human want.

Commodities are Products of Labour

Use-value, however, is not in itself enough to make a thing a commodity. The air which we breathe, fresh water from a spring, the rays of the sun, all satisfy human wants, but they are not commodities. Commodities are goods *produced* for exchange.

Produced here means produced by the expenditure of human labour. All the goods that are bought and sold on the market are (with a few exceptions " that prove the rule ", such as land—see

Chapter VII on " Value of Land ") the products of labour. The fur of an animal is the product of the hunter in so far as he must trap the animal and prepare the skin; metals are the products of the miner who mines, and of the craftsman who refines the metal. In speaking of production, therefore, political economy refers to the expenditure of human labour on material existing in nature. Man transforms the " products of nature " to serve his human needs; and " in this work of changing the form he is constantly helped by natural forces. We see, then, that labour is not the only source of material wealth. . . . As William Petty* puts it, ' labour is its father and the earth its mother.' " (Marx, *Capital,* Vol. I, p. 10.)

The fact that commodities are the products of labour, how labour is expended and how the fruits of labour are distributed, are matters of central importance in economic science. Adam Smith (unlike many modern professors) understood this well, as is clearly shown by the opening words to his *Wealth of Nations*: "The annual labour of every nation is the fund which originally supplies it with all necessaries and conveniences of life."

Exchange-Values

Commodities, then, are goods, possessing use-value, produced by human labour, and for *exchange.*

In exchange, commodities have certain " quantitative relations "; for example, hunters who in early times traded furs for iron or cloth would expect to receive certain definite quantities of iron or cloth in return for a given quantity of furs; ten sealskins might be exchangeable for 5 lb. of iron or 30 yards of cloth. Commodities, therefore, have a value which is quite distinct and different from their use-value; they have value in exchange, or *exchange-value.* Use-value depends on the qualities and properties of a commodity; for example, to serve as the shaft of a spear, wood must have certain qualities—it must have strength to stand up to shocks without fracturing, and be shaped long and thin so that it can be easily held and thrown. In order to be exchangeable, commodities must satisfy a human need, possess use-value, but the value that they have in exchange is of quite a different kind from use-value.

Whereas use-value is qualitative (that is, depends on the qualities, shape, size, etc., of the commodity), exchange-value is *quantitative.* Use-value cannot (as is explained below) be quantitatively measured, since use-value depends on the satisfaction of the subjective wants of

* Britain can, with proper pride, claim to have given birth to the science of political economy, which grew to full maturity with Marx. Sir William Petty (1623-87) was described by Marx and others as the founder of modern political economy. Adam Smith (1723-90) may be said to have transformed economic thought into a science; in the *Wealth of Nations* he gives a systematic exposition of his economic theories, which were refined and enriched by the penetrating thought of David Ricardo (1772-1823). In the works of these three great capitalist economists—the "classics" of economic theory—emphasis is laid on labour as the source of wealth, and for them the analysis of the productive activities of labour forms the foundation of their studies of the economic system as a whole.

individual men. But exchange-value is altogether different from use-value. A product which may remain identical in use, may at one time command one value in exchange and at another time another value.

Exchange-Value Determined by Labour

In terms of what are commodities measurable?

The modern bourgeois economists say that commodities are measured against one another in exchange in terms of usefulness or *utility* A man may say, it is true, that for himself some commodities are less or more or equally useful; but this relative usefulness of commodities is subjective (that is, it is based on one individual's attitude or desires) and does not provide a common objective standard by which the values of commodities generally can be compared.

Whilst products are designed to meet certain specific needs and purposes, that is, they differ in use-value, they are all one in so far as they are *products of labour.* This, then, is their common feature. They embody some specific part of the sum total of social labour that has gone to the production of the mass of commodities entering into exchange. In this respect they are objectively measurable one against another. They are equal or unequal in so far as they represent equal or unequal parts of the total product, in so far as they embody a smaller or greater share of the sum total of labour time expended in production.

The value of commodities, then, is determined by the labour-time socially required for their production. This is the objective basis of exchange value. The fact that commodities have value in terms of which they may be equated does not, of course, mean that actual exchanges are necessarily equal, that like values always exchange for like; but it does mean that to speak of equality in exchange—or inequality—has a definite meaning. For example, suppose that a hunter normally expects to catch and prepare the skins of ten seals in fourteen days and a weaver takes the same period of time to prepare and weave his wool into 30 yards of cloth (it is assumed he also spends some time in tending the sheep from which his wool is shorn), then there is a quantitative equality between the labour-time taken to produce ten sealskins and 30 yards of cloth. In this way commodities can be measured one against the other in terms of the labour-time required to produce them.

In fact, just this tended to happen for many centuries when peasants and artisans bartered their products against each other.

Exchange-value, it will be seen from what has been said above, expresses a relationship between men; it expresses the amount of labour-time expended in production. It expresses also, as will be seen from the following paragraphs, the effectiveness of the productive labour expended.

Socially Necessary Labour

"Some people might think that if the value of a commodity is determined by the quantity of labour spent on it, the more idle and unskilful the labourer, the more valuable would his commodity be, because more time would be required in its production." (Marx, *Capital*, Vol. I, p. 5.)

This evidently cannot be so. An artisan who does not master his craft, or who works with obsolete, inefficient tools, or with less speed and energy than is usual, may demand more in exchange, but he will not get more, if the buyer can get what he wants from some one else; in short, he is in competition with other producers.

In commodity exchange what counts, therefore, is not the time that a particular producer may have taken to make the commodity which he offers, but the time it normally takes—the average time. It is the time it takes men in general that matters. Just as the sloth and inefficiency of one particular craftsman would have redounded to his disadvantage in that, though his commodities took longer to produce, he got no more for them in exchange, so the craftsman whose skill and technique was in advance of the others, would, in exchange, reap the advantage. Marx describes this average time as the "*socially necessary labour time* . . . required to produce an article under the normal conditions of production and with the average degree of skill and intensity prevalent at the time." (*Capital*, Vol. I, p. 6.)

From what has been said it will be seen that, as new and better methods of production are introduced and become general, the average socially necessary labour-time (and therefore value also) for each commodity falls.

Bourgeois Theories of Value

Marxist economic theory was built on the scientific foundations laid by the great capitalist economists of the late eighteenth and early nineteenth centuries, Adam Smith and Ricardo, for whom the labour theory of value was the keystone of economic science. However, the development of the labour theory of value in the course of the nineteenth century enabled Marx to show the nature of capitalist exploitation and that capitalism itself was doomed to extinction. The defence of capitalism called, therefore, for an attack upon the labour theory of value. Bourgeois theory was quick to sense this and from about 1830 has been in quest of an economic theory that rejected the labour theory of value.

Bourgeois theory attempted to argue that value is determined by demand and supply. Demand and supply certainly play a part in determining short-term rises and falls in prices but a fundamental explanation of exchange-value in terms of demand and supply is not possible. Supply is not fixed; if, for example, demand increases, supplies in due time will be increased. What, it must be asked, determines supply? The answer given is—costs of production. That

is, bourgeois theory, setting out to explain prices, discovers that these depend upon the prices of goods used in production. Prices depend upon prices; the argument is tautological, it runs in a circle.

Bourgeois theory sought some way out of this circle and looked for something *other than labour*, which might determine value. Inevitably they had to turn to use-value. Marxists, of course, emphasise that exchange does not take place unless the goods to be exchanged are wanted by some one; a commodity, we say, to be a commodity must have use-value, but the value of commodities in exchange cannot be determined by use-value. Use-value is subjective, that is, it expresses wants felt in men's minds. Different men have different wants at different times and these wants cannot be measured against one another. A definite amount of "being wanted" cannot become embodied in commodities and cannot be measured. Men's wants cannot exist outside their own minds; they are *subjective*. Despite these shortcomings, heroic efforts have been made by bourgeois economists, particularly from 1870 on, to explain value in exchange in terms of use-value, or, to use their word, utility. Their theories are described as subjective utility theories, of which the most commonly met version is known as the theory of marginal utility which maintains that value is determined by the utility not of all goods but of goods "on the margin" which divides the goods that are sold from those that are left unsold. We need not here explain these various theories in detail and it will suffice to say that none of them can escape the difficulties fundamental to all utility theories of value; indeed, they are so unsatisfactory that many capitalist economists have abandoned them and try to make do without a theory of value at all—a tacit admission that they despair of giving a rational explanation of exchange and distribution in modern societies.

How the Law of Value Works: Supply and Demand

Marx formulates *the law of value* as follows: "The magnitude of the value of any article is the amount of labour socially necessary, or the labour-time socially necessary, for its production." (Marx, *Capital*, Vol. I, p. 6.)

In saying that value in exchange is determined by socially necessary labour-time, it is not suggested that in all exchanges the labour-time embodied in the commodities exchanged has always been exactly equivalent. Suppose, for example, a community had many blacksmiths and few weavers; the blacksmiths would not be able to dispose of their products easily since supply would exceed demand and they would, therefore, be compelled to take in return products that embodied a smaller amount of labour-time. For the weaver, the position would be reversed. Clearly, the blacksmith's life would be harder. He would have to work more intensively and longer to get as much as others who worked less. Under these circumstances, who would have cared to be a blacksmith? This occupation would be

deserted in favour of others and thus matters would have righted themselves again. In this way, as a result of competition and the workings of supply and demand, commodities would tend again to be exchanged according to their values—the law of value would assert itself and deviations from the exchange of equal values would tend to be eliminated.

Thus as exchange became more general, the law of value operated in such a way as to shape the distribution of labour, since inequalities in exchange which result from excesses of supply in relation to demand, or vice versa, tend to be corrected by the expansion or contraction of different branches of production.

Value Appears in Exchange

It has been shown in the preceding paragraph how deviations in value tend to be corrected, and how the law of value asserts itself. Thus, the value of commodities becomes apparent in exchange, and in men's minds the value of a commodity is seen not in terms of so many labour hours, but in terms of the commodities for which it can be exchanged. At first, no doubt, trade was arbitrary, but as trade became regular exchanges settled down to a regular basis, that is, they tended to be based on the labour-time needed to produce the articles exchanged.

In very early times, few goods would enter into exchange; for example, a cattle-raising community might exchange only its surplus cattle. The value of the cattle would be seen in terms of the goods which they would fetch in exchange, such as: one ox equals 5 lb. of iron. As exchange developed, more goods would enter into exchange, and it would become established that an ox would fetch 5 lb. of iron or 10 yards of cloth or four hides or 30 bushels of corn, and so on. The farmers raising cattle would measure the value of their cattle in terms of certain quantities of the use-values (cloth, iron, corn, etc.) for which cattle could be exchanged. Clearly, if an ox would fetch 5 lb. of iron *or* 10 yards of cloth, 5 lb. of iron equals in exchange-value 10 yards of cloth.

As exchange developed still further and more and more commodities entered into exchange, the equating of each commodity with a sizeable list of commodities became an unwieldy and unnecessary process.* Instead, there emerged a new way of looking at the rates at which commodities exchanged with other commodities. Those who had goods to exchange began to measure the exchange-values of their products in terms of one and the same commodity; for example, the weaver would know that 10 yards of cloth was worth one ox, the farmer that 90 bushels of corn were worth three oxen, and so on. In fact, cattle were, in very early times, frequently

* That primitive communities had, in fact, to assess the value of commodities in terms of many others is illustrated by the following passage from Homer's *Iliad*, Book 7, line 472: " Then the long-haired Achæans supplied themselves with wine, some paying in bronze, some with tawny iron, some with hides, some with cattle, and some with slaves."

used in this way as a measure of value; commodities were, it might be said, priced in terms of oxen.

Money : A Generally Exchangeable Commodity

It was, however, not only the case that goods were valued in terms of a particular commodity; goods also tended to be exchanged for a particular commodity which could and would be readily taken in exchange by other people. Barter is a very primitive form of commodity exchange, which is restricted in scope and limited in opportunity; a farmer would need to sell the produce of his land as and when he could, and although his ultimate aim might be to buy cloth or iron, he would often do well to exchange his corn or fruit for oxen, with the object of exchanging the oxen for cloth or iron when a favourable opportunity presented itself. In fact, intermediary transactions of this kind tended to occur in the transitional stage from barter to new forms of exchange; in early Greece (about 1,000 B.C.) cattle were fairly generally taken in exchange (as well as being used as a measure of the value of other commodities). A commodity which was used in this way acted as a temporary store of exchange values and bridged the gap between the sale of the surplus product and the purchase of the commodity required for its use-value (such as cloth to wear, grain to eat).

In this way, as commodity exchange developed, the form of exchange advanced from simple barter.* The universally exchangeable commodity that acts as the "go-between" in sale and purchase, and as measure of value, is termed *the money commodity*, or, simply, *money*.

Why Precious Metals Came Into Use As Money

Cattle, of course, is not a very practical kind of money. In a transitional stage it could function as such after a fashion, but as trade developed it had, together with other commodities, such as furs, which were so used in certain parts of the world, to give way in favour of a more adequate money commodity.

Phoenicians, Greeks, Egyptians, and others, many hundreds of years before Christ, had already developed a considerable commerce across the seas. For such traders, transportation of cattle as a means of exchange was out of the question, and trade could not have developed without a more convenient form of money. Further, whilst a herd of cattle may be divided into heads of sheep or oxen,

* In our times we have seen how under certain circumstances when official money backed by the State loses its value, an ordinary commodity generally accepted in exchange assumes the money function as measure of value and as means of circulation. In this way cigarettes replaced money in Germany when paper money was depreciated and discredited by uncontrolled inflation.

It is sometimes argued that gold is valuable because it is scarce, and it is suggested that this, and not the labour theory, is the true explanation of its value. This argument is fallacious. There is no *absolute* scarcity of gold; in the earth's crust there are considerable quantities of gold, but it requires a vast amount of human labour-time to locate, mine, and refine this gold.

division beyond that is impossible; cattle, moreover, have to be fed and cared for, etc. The ideal money commodity to serve as a measure of value and means of circulation must be one that is easily transportable, imperishable, and perfectly divisible.

Metals, and especially the precious metals, silver and gold, had these properties which favoured their use as money. To produce a small weight of gold much labour-time is necessary; a small piece of gold embodies, therefore, a large exchange-value and yet is easy to handle, carry, and store. Gold is divisible without detriment; therefore the exchange-value embodied in a piece of gold can be directly and simply measured in terms of its weight. Indeed, gold, for reasons given in the next paragraph, is admirably suited to the role it has had to play as the commodity that represents the exchange-value of other commodities.

Abstract and Concrete Labour

When men work, they are doing two things simultaneously; first, they are working at a definite craft or trade (as carpenters producing chairs or tables, weavers producing cloth); secondly, they are forming part of a social labour force whose collective activity in production supplies the community with all its " necessaries and conveniences of life ". As carpenters or weavers, men are doing a specific kind of work (*concrete labour*) producing particular use values (tables or cloth) but, as part of the labour force of society as a whole, their labour needs to be considered as labour in general,* without reference to its particular characteristics or purpose, as *abstract labour.*

In the process of exchange the values of different products or different kinds of work have to be compared with one another. They can only be compared in so far as they are the same. Therefore the value (exchange-value) of what a group of men produces is greater or smaller according as their labour constitutes a greater or smaller part of " social labour ", that is, the effort of all productive workers looked at as one undifferentiated whole. In creating exchange-value, it is not the specific type of work (*concrete labour*) that counts, but the fact that labour in general (*abstract labour*) is expended in doing this work. The term *abstract labour* describes what is the same— " the common element "—in all productive labour. It is so called because there has been *abstracted* or set aside from each man's work its specific characteristic (carpentry or machining or metal working), which as such plays no part in the creation of exchange values, and consideration is given only to what is the same, the fact that it is labour in general. As gold and silver coins can be in different forms (e.g. a round or square piece) and different amounts (one ounce or one pound) so labour can take different forms (carpentry or weaving) and vary in amount (one day or one hour);

* In the English language the words " *work* " and " *labour* " draw this distinction.

but as in gold so in labour, there is always the common element in the different forms which makes comparison possible.

As gold or silver came more and more to be used as a medium of exchange, it became a matter of great importance to the trader to know for sure the exact weight and quality of the gold or silver received in exchange for goods. The verification of weight and testing of quality would be troublesome and sometimes difficult. To save trouble and risk, pieces of metal of standard weight and quality were stamped and so guaranteed by public authority. This was the origin of *coinage* which dates back to the early Iron Age, to the eighth century B.C. (see *What Happened in History,* Gordon Childe, Pelican edition, p. 23 and p. 171). It is not, as is sometimes thought, the image of a king or some other magic that gives gold a definite value. It is the labour-time necessary to produce it, which enables it to measure the value of other commodities and serve as a means of exchange.

Skilled and Unskilled Labour

Gold varies in composition or degree of refinement (12 carat, 18 carat, etc.), but so, too, labour varies in degree of skill. Here again gold admirably mirrors the nature of the "substance that creates value in exchange", that is, abstract labour; as pieces of gold of differing fineness are equated (2 oz. of 18 carat gold = 3 oz. of 12 carat gold), so more skilled labour is in the process of exchange equated with less skilled. "Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour. . . . The different proportions in which different sorts of labour are reduced to unskilled labour as their standard, are established by a social process that goes on behind the backs of the producers, and consequently appear to be fixed by custom." (Marx, *Capital,* Vol. I, pp. 11–12.)

Marx points out, however, that the bulk of the labour force in capitalist society is composed of unskilled workers expending their time on routine operations. He comments that the reduction of different kinds of labour to uniform, homogeneous, simple labour which is qualitatively the same appears to be no more than an abstraction, but he adds, " it is an abstraction that takes place daily in the social process of production . . . [it] virtually exists in the average labour which an average individual of a given society can perform—a certain productive expenditure of human muscles, nerves, brain, etc. It is unskilled labour to which the average individual can be put and which he has to perform in one way or another. . . . Unskilled labour constitutes the bulk of all labour performed in capitalist society." (*Critique of Political Economy,* p. 25.)

Price and Value

The value of a commodity expressed in money is its *price;* originally this was the amount of gold which embodied an equal

amount of socially necessary labour, and this still tends to be the basis for the price of any commodity.

"Price", says Marx, "is the money name of the labour realised in a commodity. . . . Magnitude of value expresses a relation of social production, it expresses the connection that necessarily exists between a certain article and the portion of the total labour-time of society required to produce it. As soon as the magnitude of value is converted into price, the above necessary relation takes the shape of a more or less accidental exchange ratio between a single commodity and another, the money commodity. But this exchange ratio may express either the real magnitude of that commodity's value or the quantity of gold deviating from that value, for which, according to circumstances, it may be parted with. The possibility, therefore, of quantitative incongruity between price and the magnitude of value or the deviation of the former from the latter, is inherent in the price form itself. This is no defect but, on the contrary, admirably adapts the price form to a mode of production whose inherent laws impose themselves only as the mean of apparently lawless irregularities that compensate one another." (*Capital*, Vol. I, pp. 74–5.) Meagre or rich harvests, changed requirements due to substitution (such as shortage of metals causing increased demand for earthenware utensils or, vice versa, ample supplies of earthenware cutting out demand for metal utensils), the opening up of communications with new sources of supply, changes in purchasing power available to different classes of the community, and many other such occurrences cause prices to swing up or down, deviating temporarily from values.

In modern capitalism prices tend to rise above value in boom and fall below in slump, but when averaged over the period (usually about ten years) of the capitalist trade cycle they roughly correspond to values.

Causes of Price Changes

In the preceding paragraph it has been shown that price changes occur because

(1) Prices deviate from values.

However, prices also change for other reasons which do not involve any deviation of prices from values, and, in particular, because

(2) the *value* of commodities changes (as a result of changed productivity of labour engaged on the production of commodities),

(3) the *value* of the money commodity changes (as a result of changed productivity of labour engaged on the production of the money commodity, normally gold),

(4) the currency is debased, or (in paper currencies) inflated.

If, as a result of improved methods of weaving, for example, the labour-time required to weave cloth is halved, the value of cloth

expressed in money, that is, its price, will also be halved. If, on the other hand, the labour-time required to produce gold falls, then all prices will rise. Such a general rise in prices actually occurred in the sixteenth century when new gold mines were opened by the colonial conquests of the Spaniards, and again at the end of the nineteenth century with the mining of gold in the Transvaal.

Prices are expressed in terms of coins of well-known shape, size, and superscription, such as dollars, sovereigns, doubloons, etc. When, as often happened, the gold or silver from which such coins were minted was alloyed with cheaper metals and the amount of the precious metals in them was reduced,* the value embodied in the coins was, of course, reduced accordingly, but their names remained the same. The coinage was *debased*, each coin embodied a smaller amount of labour-time and prices expressed in terms of these coins rose accordingly. Thus price, without departing from value, may change because the coinage is debased. Similarly, in a country where paper money has replaced gold, inflation of the currency may produce the same result.

The Process of Circulation

When the weaver took his cloth to market, he sold his cloth as a rule not in order to keep the money he received, but to purchase with this money either means of personal consumption or raw materials or tools he needed to continue his work. Money is acting here as a go-between, linking together the sale and the purchase which takes place some time later. This process is symbolised by the formula:

Commodity—Money—Another Commodity.

The sale (C—M) is entirely separate from the purchase (M—C). It is therefore quite possible that the weaver, having sold his cloth, is unable or unwilling to buy the shoes or the grain he intended to purchase. The completion of the transaction sticks; against the sale (C—M) there is no corresponding purchase (M—C). This seemingly commonplace fact warrants careful notice, since in the study of economic crisis in fully developed capitalist society it will prove to be of great importance. However, the " simple commodity producer " of pre-capitalist times, the craftsman or peasant who sold his commodity, would as a rule use the money he received in order to make a purchase. The commodity in circulation would change hands at most only a few times before reaching the final consumer. But while the commodities are bought for use and pass out of circulation, the money goes on circulating from hand to hand.

Money as a Store of Value

The function of money as a store of value is in a certain sense the counterpart of its function as a medium of exchange. In exchange

* Note that we are not here referring to *token* coinage (see p. 28) such as the silver or copper coins used in Britain today.

a commodity is given up and its value in money form received in its place (C—M in the formula given above). The money is then paid in purchase of the commodity required (M—C), and so the cycle of exchange of commodities is completed. If, however, the cycle of exchange is not completed, if commodities are sold without corresponding purchases being made, then in return for the commodities sold their owner has not other commodities but their value stored in money form.

Money as Capital

The process of circulation of capital is very different, indeed the opposite of that in simple commodity production. The capitalist starts with a store of money with which he buys commodities in order to sell again at a profit. The formula is Money—Commodities—More Money, M—C—M^1, not C—M—C. In this process (as will be shown in Chapter VIII) the likelihood of a hitch, of purchase not following sale, becomes much greater.

Token Money

The wearing out of money in the course of its service as a means of circulation involves loss of some of the substance of the valuable commodity money. Therefore, as the exchange of commodities expands, in place of the precious metal itself, a token or symbol comes to be passed from hand to hand. Naturally as the gold coin itself only comes to be generally accepted in so far as reliance has come to be placed on it from long custom and the authority whose superscription it bears, so the token coin or symbol of value only becomes acceptable in so far as its status has been established by custom and the backing of authority.

One of the earliest forms of token money known to history was the sealed purse in ancient Carthage used to symbolise a quantity of gold. In more modern times paper has become the most widely used form of token money. (It may here be pointed out that, when paper money is "inflated", the pieces of paper which represent certain accepted units of currency, such as the pound sterling or the dollar, cease to be worth as much as before the inflation, though they look the same and bear the same name; for example, a pound note which previously bought goods in which, say, five hours of labour-time were embodied, now only buys goods embodying, say, three hours of labour-time.) Coins used for small change are also token money, since their value depends on the value they represent rather than on the value of the metals of which they are made; for example, before 1914 a shilling represented one-twentieth part of a gold sovereign, and not the value of the silver it contained. Thus in a variety of ways symbols of value come to be used in the place of the money commodity itself in order to perform money's function as a means of exchange.

Commodities may thus enter into exchange in ratios corresponding to the value they embody, even though the symbols which serve

as " go-betweens " in the act of exchange themselves have no value.

Money as a Means of Payment

The general use of token money corresponds to a fairly high stage in the development of commodity exchange. A still higher stage gives rise to a separation in time between the act of purchase and the act of payment. For example, goods are purchased against an undertaking to pay at some later date. The " bill of exchange " is such an undertaking, drawn up in legally binding form, which has come into general use in modern commercial transactions. The ordinary bank cheque is another.

As commerce developed there came into being a whole network of financial transactions and financial specialists experienced in how to turn such transactions to profit. In the hands of the financial houses and banks that specialise in such dealings, promises to pay collect alongside of rights of payment, and then in each trader's account debts are cancelled out against credits or vice versa. Thus, commercial payments tend to pass through certain central points, and purchases and sales can be effected without the direct intervention of the money commodity, which now serves rather as a means of repayment " on settlement day " than as a direct intermediary in each individual transaction.

Gold as World Money

As commodity exchange spreads throughout the world, the means of effecting sale and purchase between nations are developed. Here the coin marked and shaped in accordance with currency standards of a national authority no longer has the same significance; now it is the weight of the crude metal, the bullion, that counts. Currencies count only for the gold they can be turned into or the labour-time they command. Gold and silver thus serve as world money. " The more the exchange of commodities between different national spheres of circulation is developed, the more important becomes the function of world money to serve as a *means of payment* for the settlement of international balances." (Marx, *Critique of Political Economy*, p. 204.) Gold (supplemented to a certain extent by silver) has continued thus throughout the capitalist era to function as the world money in which settlement is made of outstanding balances from trade and financial transactions between nations.

The Functions of Money

From the foregoing paragraphs it will be seen that money in developed commodity production has a number of functions, which may be briefly summarised as follows:

(1) Measure of value.
(2) Medium of exchange.
(3) Means of payment.
(4) Store of value.

Hoarding

Money can satisfy neither hunger nor thirst, and it is not to enjoy the use-value of the metal that men want money. Once trade has developed on any considerable scale, the usefulness of gold for making utensils or ornaments becomes of purely secondary importance. Hoards of gold are coveted not for the beauty or usefulness of the metal, but because gold is the embodiment of exchange-value, because it is abstract labour incarnate, because it is money. At will it can be turned into any commodity. Gold commands the product of other men's labour—and much else besides.

> "Gold! Yellow, glittering, precious gold! . . .
> Thus much of this will make black, white; foul, fair;
> Wrong, right; base, noble; old, young; coward, valiant.
> . . . Why this
> Will lug your priests and servants from your sides;
> Pluck stout men's pillows from below their heads.
> This yellow slave
> Will knit and break religions; bless the accurs'd;
> Make the hoar leprosy adored; place thieves,
> And give them title, knee and approbation
> With senators on the bench; this is it
> That makes the wappen'd widow wed again;
> She, whom the spital house and ulcerous sores,
> Would cast the gorge at, this embalms and spices
> To the April day again."
>
> —Shakespeare, *Timon of Athens*, Act IV, Scene III.

A humble craftsman or peasant must use the money that he gets for the sale of his produce to buy the wherewithal to maintain his existence. He can at best save but little against misfortune. But not so the slave-owner or feudal lord. They could, from the surplus wealth which came to them from the labour of slaves or serfs, live in pomp and luxury, and at the same time lay by great stores of precious metals. But neither the potentate of ancient times nor the feudal lord could be charged with miserliness. They got and held the sources of their wealth by force and knew little of the "virtue of abstinence".

The development of trade, however, brought with it a class of men who worshipped money with a greater single-mindedness. These were the merchants. "All along the line of exchange", writes Marx, "hoards of gold and silver of varied extent are accumulated. With the possibility of holding and storing up exchange-value in the shape of a particular commodity, arises also the greed for gold. Along with the extension of circulation, increases the power of money, that absolutely social form of wealth ever ready for use. . . . The desire after hoarding is in its very nature insatiable. In its qualitative aspect or formally considered money has no bounds to its efficacy, i.e., it is the universal representative of material wealth, because it is directly convertible into any other commodity. But at

the same time, every actual sum of money is limited in amount and, therefore, as a means of purchasing, has only a limited efficacy. This antagonism between the quantitative limits of money and its qualitative boundlessness, continually acts as a spur to the hoarder in his Sisyphus-like labour of accumulating. It is with him as it is with a conqueror who sees in every new country annexed, only a new boundary." (*Capital*, Vol. I, pp. 108-110.)

CHAPTER III

THE ORIGINS OF CAPITALISM

The growth of the market and the decay of Feudalism—" Primitive Accumulation " and the formation of the capitalist class and the proletariat—Development of capitalist production from the putting-out system to large-scale industrial capitalism —Part played in this development by the English Revolution.

CAPITALISM today differs fundamentally from all previous economic systems. Production is carried on in large units employing hundreds or thousands of workers. Industry predominates over agriculture. In industry vast and rapid developments have carried the technique of production far away from the homely craftsmanship of feudal times. The application of science to methods of production has had far-reaching consequences. Specialisation and the division of labour, both within and between productive units, has been carried to a very high degree. The whole of the world is linked by commercial and economic ties, and dependence on markets—not merely local markets, but world markets—is constantly invading the self-sufficiency of natural production which still persists. The development of capitalism in Britain, the U.S.A., Germany, and the other leading capitalist countries has brought in its train an unprecedented increase in production, wealth, and population, but it has brought also mass poverty for the workers and exploitation of colonial and subject peoples, devastating economic crises, and wars affecting the whole of the world.

In Chapter II it has been shown how, long before the appearance of capitalism on the scene of history, production for exchange and trade, for the *market*, developed and existed alongside " production for use " in ancient slave society and feudal society. This development of exchange and the market was a necessary pre-condition for the development of capitalism; capitalism could not have developed if commodity exchange had not developed first. Moreover, the growth of trade aided the rise of capitalism by breaking down the old social relationships and creating *new class divisions* both in the villages and in the handicraft guilds in the towns. However, the development of the market by itself was not sufficient to cause the capitalist system of production to develop. In the ancient world trade developed to a considerable extent, but nevertheless it did not give birth to a capitalist system of production. Before capitalist production can become general other conditions, as well as the growth of the market, must first have developed; there must have been new advances in technique making possible new methods of production and there must have emerged two new classes, the *capitalist class* and the *working class* or *proletariat.*

The Capitalist Class

The capitalist class is the class which owns as private property

the means of production, the factories, mills, mines, machinery, and raw materials. However, the ownership of the means of production does not in itself distinguish the capitalist class from other exploiting classes. Other exploiting classes have owned the means of production; for example, the slave-owner of the ancient world owned the crude instruments and other means of production with which the slave worked. What else, then, characterises the capitalist class? Is it the possession of large sums of money? It is true that capitalists need in order to be capitalists to possess large sums of money, but money fortunes existed long before the advent of capitalism and the possession of large sums of money cannot in itself characterise the capitalist class. The essential characteristic of the capitalist is that he *hires workers* who work for *wages*, producing goods for exchange.

The capitalist class, therefore, is a class of persons possessed of wealth in money form and owning means of production which are set to work by hiring wage-workers. There can, therefore, be no capitalist production unless in addition to the capitalist class there is also a class of wage-workers.

The Working Class or Proletariat

Capitalists will not be able to hire wage-workers unless there are those who need and also are free, to sell their power to work for wages. If men can get their living by themselves, as do the independent or simple commodity producers using their own labour and their own tools and other means of production (such as the peasant working his own land or the craftsman working for himself), then they do not need to sell their power to work, their *labour-power*. If men are not free to leave their lord's land, being " tied " to the land as is the serf, then they are not able to sell their labour-power. Therefore, that a class of wage-workers might develop, it was necessary that there should be men who were freed from the bondage of serfdom and at the same time " free " from the opportunity of getting a living for themselves as independent producers, as peasants or craftsmen. In short, men torn from the means of production, dispossessed of land, raw materials, and tools, free to sell their labour-power for wages—or starve. This new propertyless, dispossessed class, whose coming into being was a necessary condition for the development of capitalism, Marx termed " *the proletariat* " after the " *proletarii* " who constituted the propertyless class of free citizens in ancient Rome.

An understanding of capitalism must begin with an understanding of how there came into being, on the one hand, the *propertied* class owning the means of production—the *capitalist class*; and, on the other hand, the propertyless class, free and yet compelled by necessity to sell its labour-power to the capitalists—the *proletariat*.

Merchant Capital

The earliest form of capital was merchant capital, which existed many hundreds of years before the advent of the capitalist system

of production, e.g., in Egypt, Asia Minor, Greece, and Rome. Merchant capital first began to appear in history when commerce between distant lands developed on a substantial scale. From such traffic, the traders of the ancient world became wealthy and powerful, and not infrequently they speeded the growth of their wealth and power by combining commerce with piracy.

With the development of feudal society, trade and commerce again grew. During the eleventh and twelfth centuries there was a great expansion of trade, mainly maritime trade from country to country, which stimulated the growth of rich trading cities such as those of Northern Italy and Flanders, the towns on the Baltic, and, in England, Norwich and London. The Crusades (the first at the end of the eleventh century, the seventh and last in the middle of the thirteenth century) greatly stimulated trade between Europe and the Middle East. The crusaders and the merchants who followed in their wake acquired the riches of the East by the unholy methods of robbery and cheating. Once more trade and violence went hand in hand.

Growth of the Market and its Effects

With the opening up of trade with the East demand for the luxuries in which the merchants trafficked—spices, silks, carpets, and so forth—grew apace in the feudal courts and castles. This was one of the ways in which the growth of commerce broke down the self-sufficiency of the feudal estates. What the traders brought, the feudal lords were eager to buy. The surplus produced by the labour of the serfs had therefore to be made to provide them with the means of buying goods that commerce offered. The feudal lords' concern was not only to turn their wealth into money but also to increase the amount of money at their command. Land and men owing allegiance had in the past meant power; now, with the expansion of trade, money was becoming power. The basis for trade was exploitation; it was primarily the surplus product, the fruit of exploitation, that entered into trade. It was therefore a frequent consequence of the growth of trade and commerce that serf labour was more ruthlessly exploited in order that, from the greater surplus thereby appropriated, more products might be sold to yield money revenue.

In the fifteenth and sixteenth centuries, a further impetus was given to the growth of commerce by the discovery of America and the opening of the sea route to India. Once again piracy and plunder went hand in hand with commerce. The expansion of commerce and its ever deeper penetration into feudal society had by now brought about changes that were destined to have far-reaching consequences. "The development of commerce and merchants' capital", writes Marx, "brings forth everywhere the tendency towards production of exchange values, increases its volume, multiplies and monopolises it, develops money into world money. Commerce there-

fore has everywhere more or less of a dissolving influence on the producing organisations, which it finds at hand and whose different forms are mainly carried on with a view to immediate use. To what extent it brings about a dissolution of the old mode of production, depends on its solidity and internal articulation. And to what this process of dissolution will lead, in other words what new mode of production will take the place of the old, does not depend on commerce, but on the character of the old mode of production itself. In the antique world the effect of commerce and the development of merchants' capital always result in slave economy; or, according to what the next point of departure may be, the result may simply turn out to be the transformation of a patriarchal slave system devoted to the production of direct means of subsistence into a similar system devoted to the production of surplus value. However, in the modern world, it results in the capitalist mode of production. From these facts it follows, that these results were conditioned on quite other circumstances than the mere influence of the development of merchants' capital." (*Capital,* Vol. III, p. 390.)

The Internal Decay of Feudalism

Money and commerce acted as a solvent, breaking down the old societies. " Money revenue, as well as services of bondsmen, grew to be a lordly ambition; a market in loans developed, and also a market in land. As one writer, speaking of England, has said: ' the great roads which join London to the seaboard are the arteries along which flow money, the most destructive solvent of seignorial power'." (Maurice Dobb, *Studies in the Development of Capitalism,* p. 38.) The merchant capitalists became a new power in the land; they were able, because of their great wealth, to seek alliance with the greater lords, and, in return for the money they put at their disposal, were given special protection and monopolies in trade. New conflicts and divisions resulted from the growing power of the merchants.

All this " softened up " and weakened the structure of the old society, but the root cause underlying the dissolution of feudalism was the failure, or rather inability, of the feudal mode of production to develop. " Not only ", writes Dobb, " did the productivity of labour remain very low in the manorial economy, owing both to the methods in use and the lack of incentive to labour, but the yield of land remained so meagre as to lead some authorities to suggest an actual tendency for the system of cultivation to result in exhaustion of the soil." (*Studies in the Development of Capitalism,* p. 43.)

The feudal structure of society—which in its origin had been a vehicle of progress giving scope for new methods of tilling the soil, new productive possibilities which could not be developed within slave society—itself turned into a fetter on further development of the forces of production. The peasant did nothing to enrich the land which the medieval cropping system exhausted. It was not only poverty that debarred him from manuring his land adequately; he

knew also that "any improvement in the soil was but the pretext for some new exaction" and that the lord "being a mere parasite . . . discouraged initiative and dried up all energy at its source by taking from the villein an exorbitant part of the fruits of his work, so that labour was half-sterile." (P. Boissonnade, *Life and Work in Mediaeval Europe* quoted by M. Dobb in *Studies in the Development of Capitalism*, p. 44.)

Thus the growing needs of the feudal ruling class for money and the new exactions and pressure on their subjects to which this led coincided with productive stagnation, which was made the worse by the poverty which their added exactions imposed upon the peasantry.

What the feudal lords could not get by grinding down their subjects they sought by military adventures against rival lords. Consequently "the number of vassals were multiplied . . . in order to strengthen the military resources of the greater lords. This, combined with the natural growth of noble families and an increase in the number of retainers, swelled the size of the parasitic class that had to be supported from the surplus labour of the serf population. Added to this were the effects of war and of brigandage, which could almost be said to be integral parts of the feudal order, and which swelled the expenses of feudal households and of the Crown at the same time as it spread waste and devastation over the land." (M. Dobb, *op. cit.*, p. 45.)

The more the feudal lords strove severally to master their circumstances the deeper was the crisis into which their class as a whole was plunged. The very means by which each strove for survival accelerated the downfall of feudal power in general; and as feudalism grew weaker, the merchants and manufacturers, the men from the towns, grew stronger.

The antagonisms that shaped the course of social development in the era of the decay of feudalism may be thus summarised: (i) The conflict between serf and lord: serf fighting back against the lord, who was ever struggling to exact a bigger surplus product. (ii) Lord warring against lord, each trying to win salvation at the expense of a rival, and, in so doing, sowing a harvest of universal decay. (iii) Feudal power against the merchants and budding capitalists in the towns and on the land. As the struggles proceeded the basis of feudal power was continually narrowing; the old order was less and less able to manœuvre, less and less able to find a way out for itself. Feudalism was struggling on its death-bed, as today moribund capitalism struggles ever more desperately against the rising power of Socialism.

In the towns an unceasing fight had been carried on against the domination of the feudal lords, the king, and the church. Trade and commerce sought to free itself from such hampering obligations as military service, consent of the lord to admission of new burgesses, monopoly held by the lord in milling of grain and baking of bread,

the tyranny of the king's sheriffs and the "clerk of the king's markets". In this fight the townsmen, reinforced by the wealth of commerce, gained their ends to a very substantial extent, winning self-government and charters that defined the dues to be paid. However, the towns, whilst fighting against the tolls on sales imposed by the feudal lords, themselves imposed numerous tolls and closely controlled the town market with the object of keeping down prices of food and materials consumed in the towns and keeping *up* prices paid for goods sold to outsiders.

In the course of time, the guilds of craftsmen and merchants in the towns, which at the outset had been fraternities of equals, changed their character beyond recognition. The progress from apprentice to journeyman and from journeyman to master was no longer a royal road that most might expect to follow. The masters were able in the course of time to establish themselves as a narrow and restricted class, ruling the affairs of the guilds and the town in their own interests, and using property qualifications to block the advancement of the common journeyman to positions of control. Again, the guilds of merchants separated themselves from the guilds of productive craftsmen, and used their wealth to establish themselves in a dominant position. The regulative control which had once been the proper function of the guilds became instead an exclusive monopoly supported by royal enactment. As allies of the monarchy (which was in great need of allies against the seditious moves of the barons) the monopolistic merchants became a bulwark of the old order and resisted the aspirations of the lesser merchants and of the rising class of capitalists, who were beginning to put their capital into production.

What were the issues which underlay the shifting alignments of class forces, and the religious and moral precepts that inspired the contending parties in the prolonged struggle that culminated in the English revolution of 1640–1680? The root issue was State-power, that is, whether the rising capitalist class or the representatives of the old feudal order controlled legislation, administration, the armed forces, and the legal system. More specifically the capitalists needed control of the State apparatus in order that they might have freedom to buy and sell the land and do with it as they willed (in which they were baulked by the customs and legal provisions of the feudal system). They sought freedom to manufacture whatever they wished, in whatever way they wished, and to sell their products wherever they wished (and in this they were obstructed by the customs and legal provisions under which the guilds and corporations in the towns exercised control of economic activities). They wanted freedom to employ whom they wished as they wished (and in this they were obstructed by the customs and legal provisions under which the serf and peasant was tied to his lord's land and under which the apprentice and journeyman in the town was subject to jurisdiction of the guilds).

"Primitive Accumulation" and the Origin of the Proletariat

Capitalism could not develop until, in addition to the accumulation of wealth in a few hands, there were also men and women *free* to sell their labour-power for wages and at the same time "free" from any other means of getting a living.

The origin of this two-fold condition, which had to exist before capitalism could come into being, has been the subject of more hypocritical rubbish from the pens of the defenders of capitalism than perhaps any other topic. "This primitive accumulation", writes Marx, "plays in Political Economy about the same part as original sin in theology. Adam bit the apple, and thereupon sin fell on the human race. Its origin is supposed to be explained when it is told as an anecdote of the past. In times long gone by there were two sorts of people; one, the diligent, the intelligent, and, above all, frugal élite; the other, lazy rascals, spending their substance, and more, in riotous living. The legend of theological sin tells us certainly how man came to be condemned to eat his bread in the sweat of his brow, but the history of economic original sin reveals to us that there are people to whom this is by no means essential. Never mind! Thus it came to pass that the former sort accumulated wealth and the latter sort had at last nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labour, has up to now nothing to sell but itself; and the wealth of the few that increases constantly—although they have long ceased to work. Such widespread childishness is every day preached to us in the defence of property." (*Capital,* Vol. I. p. 736.)

Trade, helped by war, brigandage, and cheating, fostered the accumulation of wealth; how did the other condition necessary to the development of capitalism, namely, the existence of a "free" working class, the *proletariat,* come about? In Britain the landless, propertyless, dispossessed classes, the proletariat to be, were formed as a result, in the main, of violent expropriation through the Enclosures, the Reformation, and differentiation amongst the peasantry. (Similar causes operated in the formation of the proletariat elsewhere in Europe.)

In feudal society the peasantry was the main producing class and it was by depriving of land those who had, as serfs or tenant farmers, once lived off their own fields, that the proletariat was primarily formed. This happened in a number of ways: sometimes the peasants, pressed too hard by the greed and cruelty of the landowners, deserted to the woods and to the towns; sometimes the peasants' land was simply taken by force in order that the landlords might turn the land thus appropriated into pasturage for sheep, and so get themselves moneyed wealth from the sale of wool, for which the growing textile industry provided a ready market in the fifteenth and sixteenth centuries. "Forcible usurpation . . .", says Marx, "generally accompanied by the turning of arable into pasture land,

begins at the end of the fifteenth and extends into the sixteenth century. But, at that time, the process was carried on by individual acts of violence against which legislation, for a hundred and fifty years, fought in vain. The advance made by the eighteenth century shows itself in this, that the law itself becomes now the instrument of the theft of the people's land ". (*Capital,* Vol. I, p. 748.) The huge extent of the " legal " enclosures in the eighteenth century may be gauged from the fact that in the reign of George III alone 3,554 Acts of Enclosure were passed appropriating 5½ million acres of land. Extensive enclosures continued into the nineteenth century, 3½ million acres being appropriated between 1801 and 1831.

The process of the formation of the proletariat continued in Britain through five hundred years, from the fourteenth to the nineteenth century. The entry of British capital into East Africa causes what is in essence the same process to be re-enacted in the twentieth century. In Kenya between 1905 and 1941, 4,400,000 acres were expropriated from the natives and given to English settlers, who forthwith began agitating for the administration to provide them with labour to work their estates. This the administration speedily did by restricting the area of native reserves and imposing a poll-tax (1908), to pay which the native could only get the money by leaving his own land to work for a wage. Gestapo methods, including registration at a Central Fingerprint Bureau, were then invoked to enforce these measures. The same ruthlessness and violence has throughout the world and throughout the centuries been used in the creation of conditions suitable to capitalist production, and in particular in the formation of a proletariat " free " to be exploited.

By the end of the sixteenth century the masses of the people in Britain had, in long and bitter struggles, won for most of their number freedom from the more degrading obligations of serfdom. In the countryside, the dominance of the lords of the manors was still firmly maintained; but the bulk of the population were small peasants holding their land as tenants of the great lords. Some, however, had acquired (or retained) full freedom, and owned their own land. Of these a few had become yeoman farmers of substance who aspired to the status of the squires and lesser nobles who were now beginning to farm their lands on capitalist lines, employing wage-workers. At the other end of the scale there were the many peasants who were forced by debt to sell all their property and leave their land to become beggars or wage-labourers.

The effects of the enclosures, impoverishment and exploitation, were supplemented in the sixteenth century by the Reformation, an onslaught on the Church of Rome which brought in its train suppression of the monasteries and the sharing out of the estates of the Church (which had been one of the largest landowners). Thus the Reformation helped to bring into being the new capitalist landowners, who employed but few labourers in sheep-raising, and at the same time swelled the numbers of the landless proletariat.

Capitalist economists and other apologists for capitalism would do well to study history, which answers with burning facts the lie that the origin of capital is thrift, abstinence, and " thought for the morrow ". Marx, who made a very deep and thorough study of the historical facts, speaks thus of this two-fold process of *primitive accumulation,* by which simple and non-capitalist commodity production turned into capitalist commodity production: " This so-called primitive accumulation is nothing else than the historical process of divorcing the producer from the means of production. . . . The history of this, their expropriation, is written in annals of blood and fire. . . . In the history of primitive accumulation, all revolutions are epoch-making that act as levers for the capitalist class in the course of formation; but above all, those moments when great masses of men are suddenly and forcibly torn from their means of subsistence and hurled as free and ' unattached ' proletarians on the labour market. . . . The spoliation of the Church's property, the fraudulent alienation of the State domains, the robbery of the common lands, the usurpation of feudal and clan property, and its transformation into modern private property under circumstances of reckless terrorism, were just so many idyllic methods of primitive accumulation. They conquered the field for capitalist agriculture, made the soil part and parcel of capital, and created for the town industries the necessary supply of a ' free ' and outlawed proletariat." (*Capital,* Vol. I, pp. 738, 739, and 757.)

Alongside these violent transformations of the agricultural economy of feudalism, means no less violent were used to acquire and " accumulate " money and other forms of wealth that could be turned into capital. " The discovery ", writes Marx (*Capital,* Vol. I, p. 775), " of gold and silver in America, the extirpation, enslavement, and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalised the rosy dawn of the era of capitalist production."

The Development of the Capitalist Mode of Production

Capitalist production at first developed slowly within the feudal society. Its early forms were restricted and encumbered by the old order; once, however, capitalism had won its political and therewith economic freedom, it revealed with startling speed the undreamed-of forces of production that lay hidden in social labour. In the remaining paragraphs of this chapter a brief account will be given of the stages through which the capitalist mode of production changed and developed until it reached its fully mature form in the industrial capitalism of the nineteenth century.

The Putting-Out System

As trade increased the character of the medieval guilds of crafts-

men greatly changed. The master who worked with a few apprentices and perhaps one or two journeymen temporarily attached to his household, and belonging to a guild which controlled the quantity and quality of goods produced, was in the fifteenth century in England already becoming a relic of the past. The merchant guilds had attained a position of dominance over the craft guilds, a few wealthy guild-masters were concentrating power in their hands, the journeymen were assuming more the position of exploited wage-labourers, and—most important of all—the pressure of the growing market was breaking down the restrictions and monopolies of the guilds. Merchants and well-to-do craftsmen, in their eagerness for more plentiful and cheaper supplies of goods to sell than they could obtain from the urban guilds, turned their attention to production from new sources.

So developed an almost capitalist form of industry—the *putting-out system,* also known as *domestic industry,* which made its appearance on a considerable scale, particularly in the cloth industry in England, in the fifteenth century. The merchant-employer (almost a capitalist) bought raw material, such as wool, and " put it out " to the smaller craftsmen, the spinners, weavers, carders, fullers, dyers, etc. In order to avoid the guild restrictions of the towns, this work was generally put with workers in the countryside outside the jurisdiction of the towns. The " capitalist " paid the worker for his labour and became the owner of the finished cloth, which he sold at a profit.

In this " in-between " kind of capitalism, the worker often owned his own means of production, and worked at his loom, for example, in his own house; but now he no longer owned all his means of production, since his raw materials belonged to his employer. To this extent he therefore depended on his employer. The worker was in effect forced to borrow the means of carrying on production—at a high rate of interest. Apparently this domestic system of production involved no technical change, but it should be noted that under it the various craftsmen were subordinated to the capitalist whose concern it was to see that the various processes of production were dovetailed together as economically as possible.

" The transition from the feudal mode of production ", writes Marx, " takes two roads. The producer becomes a merchant and capitalist, in contradistinction from agricultural natural economy and the guild-encircled handicrafts of medieval town industry. This is the revolutionary way. Or, the merchant takes possession in a direct way of production. While this way serves historically as a mode of transition—instance the English clothier of the seventeenth century, who brings the weavers, although they remain independently at work, under his control, by selling wool to them and buying cloth from them—nevertheless, it cannot by itself do much for the overthrow of the old mode of production, but rather preserves it and uses it as a premise. As soon as manufacture gains

sufficient strength, and still more large-scale industry . . . commerce becomes the servant of industrial production ", whereas " in former periods . . . merchants' capital [held] the supremacy over industrial capital." (*Capital*, Vol. III, pp. 393 and 396.)

Co-operation and Manufacture

" When numerous labourers work together side by side, whether in one and the same process, or in different but connected processes, they are said to co-operate or work in co-operation." (Marx, *Capital*, Vol. I, p. 315.) Long before capitalism, men " co-operated " in production in considerable numbers. Without co-operation neither the Egyptian pyramids nor the Roman roads could have been built; but with the emergence of capitalism, co-operation of many men working alongside one another in production becomes no longer something occasional or exceptional, but, to an increasing extent, normal and regular. Co-operation brings with it a great increase of productive power, overhead costs (per unit of output) are reduced, efficiency is stimulated by the contact of workers with one another in production, joint efforts make possible achievements of an altogether different kind from those within the power of individual workers (for example, the building of a dam).

This new productive power becomes general and widespread with the development of capitalism. It is the fruit of the new technical developments and consequently new social conditions which make possible the " working together " in " co-operation " of many workers, but " because the labourer does not develop it [i.e. this new productive power] before his labour belongs to capital, it appears as a power with which capital is endowed by nature—a productive power that is immanent in capital ".

This *social* labour-process, this working together of many men (and with it the wide distinction of the capitalist employer, not himself a productive worker, from the wage-earning worker) is a feature that distinguishes the capitalist mode of production from feudal production, characterised by the individual peasant and farmer and by the independent craftsman with a limited number of apprentices working with him.

From the sixteenth to the eighteenth century, prior to the age of modern industry with its use of large-scale powered machinery, the most mature form of capitalist production was what Marx terms *manufacture*, which involved extensive division of labour between many workers who were brought together in one place of work, or factory. Most of the newer industries, such as paper, gunpowder, cannon-making, sugar-refining, etc., which developed in England in the sixteenth century, were—indeed, had to be—undertaken in this way. Manufacture was, however, adopted also in the older industries (where the domestic or putting-out system still lingered for many long years).

The development of manufacture followed two courses: *first, craftsmen whose several skills contributed to the production of one* article would be assembled together and *would so become specialists* in their crafts as applied to this particular product. (Marx quotes as an example carriage manufacture, which calls for wheelwrights, upholsterers, locksmiths, and many other artificers, who became no longer experts in upholstery, wheelmaking, etc., of all kinds, but only in upholstering carriages, making the wheels of carriages, etc.) Secondly, craftsmen in one trade would be brought together and in the course of time would divide up their process of work so that individual workmen became specialists in particular operations. (Adam Smith in *Wealth of Nations*, Book I, Chapter I, quotes pin-making as an example: "One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business; to whiten the pin is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations." He adds: "Ten persons . . . could make among them upwards of forty-eight thousand pins a day. . . . But if they had all wrought separately and independently and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day.")

"The collective labourer", writes Marx, "formed by the combination of a number of detail labourers, is the machinery specially characteristic of the manufacturing period." (*Capital*, Vol. I, p. 341.)

This far-reaching division of labour and specialisation of functions carries with it a down-grading of labour—all that the worker requires is a highly specialised dexterity; he loses his general skill as a craftsman and his ability for independent work. What once were the products of seasoned craftsmanship, now are the products of "collective labour", of a few skilled and many unskilled workers.

Manufacture adapts not only the worker to specialised work, but also his tools. Implements of all kinds used in the process of production, such as cutting tools, hammers, drills, lathes, etc., are adapted each to a special purpose. "The manufacturing period simplifies, improves, and multiplies the implements of labour by adapting them to the exclusively special functions of each detail labourer. It then creates at the same time one of the material conditions for the existence of machinery which consists of a combination of simple instruments." (Marx, *Capital*, Vol. I, p. 333.)

The period of *manufacture*, which dates from the middle of the sixteenth century, ends with the industrial revolution at the end of the eighteenth and the beginning of the nineteenth century. With the industrial revolution, for which *manufacture* paved the way, capitalist production, based on large-scale mechanised industry, reaches the conditions for its full development.

The Productive Forces of Capitalism released by the English Revolution

The advance from manufacture to full-blooded industrial capitalism could not have taken place if the capitalist class had not been able to free itself from the shackles of feudalism. Up to a certain point capitalism was able to develop within the old feudal society, but in order to realise their full potentialities the capitalist class sought to "employ the power of the State, the concentrated and organised force of society, to hasten, hothouse fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transformation. Force," writes Marx, "is the midwife of every old society pregnant with a new one." (*Capital*, Vol. I, p. 775.)

In Britain the forceful struggle between the old society and the new reached its culmination in the Revolution of 1640. In this struggle the Parliamentary cause had wholehearted support from capitalists connected with industry, particularly in the woollen manufacturing districts such as Gloucestershire, Yorkshire, and East Anglia. The merchant capitalists on the whole supported Parliament, but those who did, did so with many reservations and vacillations; they were the right wing of the Parliamentary forces. The holders of Royal patents giving them monopoly rights in their own industries supported the King, despite the fact that their undertakings were some of the most capitalistically advanced in the country. Their connection with the Court and the monopoly privilege that they enjoyed placed them in the ranks of reaction. The small and medium-sized yeoman farmers were staunch supporters of the Revolution, especially in south-eastern and eastern England; however, in the west and north of England, where the feudal tradition was strong, the landholding interests and the gentry fought for the King and were able to enrol in their forces considerable numbers of their tenants and retainers. A contemporary writer sketches the alignment as follows: "A very great part of the knights and gentlemen of England . . . adhered to the King. . . . And most of the tenants of these gentlemen, and also most of the poorest of the people, whom the others call the rabble, did follow the gentry and were for the King. On the Parliament side were (besides themselves) the smaller part (as some thought) of the gentry in most of the counties, and the greater part of the tradesmen and freeholders and the middle sort of men, especially in those corporations and counties which depend on clothing and such manufactures." (Baxter, *Autobiography*, Everyman edition, p. 34.)

The issue was Parliament versus the Absolute Monarchy. Parliament represented the interests of the rising capitalists. The monarchy, which in earlier Tudor times had in certain respects facilitated the development of capitalism, now recognised that the only real threat to the power and privilege of the Court came from the capitalist class. The monarchy became the bulwark of feudal

reaction and rallied to its support the feudal lords whose privileges were threatened by the rising capitalist class.

The immediate cause of the outbreak of the Civil War between King and Parliament was the attempt to impose taxes without the consent of Parliament. However, the root issue was who should hold State-power, the rising capitalist class or the old feudal ruling class and those now mustered about the King. The issue was who should control legislation, taxation, administration, the armed forces, and the legal system.

Machinery and Large-scale Industry

"According to the theory of Marx, the term large-scale machine (factory) industry, applies only to a definite and precisely to a higher stage of capitalism in industry. The principal and more important symptom of this stage is the employment of a system of machines in production. The transition from manufacture to the factory marks a complete technical revolution which eliminates the age-old skill of the craftsman and this technical revolution is followed by an extremely sharp change in the social relations in production, by a final rupture between the various groups taking part in production, a complete rupture with tradition, the intensification and expansion of all the gloomy sides of capitalism, and at the same time the mass socialisation of labour by capitalism. Thus large-scale machine industry is the last word of capitalism, the last word of its negative and 'positive' aspects." (*Development of Capitalism in Russia:* L.S.W., Vol. I, p. 303.)

With the development of capitalism, the market grew, and with the growth of the market the capitalist producer sought always to increase his production of goods with which to supply the market. The ever-expanding market for the capitalists' products, together with the methods of production which developed in the "manufactories" (that is, pre-machine-age factories in which production was at the stage of *manufacture*) provided unusually fertile soil for mechanical inventions. In many lands and in many past ages, craftsmen and scientists had made inventions, but never had the incentive and appetite for using and stimulating inventions been great, since the social conditions were not such that these inventions could give rise to far-reaching and revolutionary changes in productive technique. In eighteenth-century England, conditions were ripe for such changes and a whole series of inventions, destined completely to transform the face of industry, followed in quick succession: the flying shuttle in 1733, the spinning jenny in 1765, the spinning frame worked by water power in 1769, the spinning mule, combining the jenny and the water frame, in 1779, the steam engine in 1782, the power loom in 1785, and finally the automatic mule in 1825.

In the period of industrial capitalism the basis for the expansion of the market, in each capitalist country and later in the backward countries, has always been the destruction of the independent craftsman, through the competition of machine-made goods. Moreover

the increasing production of machines itself created new markets. New industries producing machines arose, and these in turn created a new demand for iron and steel, and stimulated the invention of new methods of smelting, more efficient furnaces, and so on.

The great development of industry that occurred in the nineteenth century would not have been possible if it had not been for the invention of a new driving power—steam. However, this new source of power was not the most revolutionary aspect of the new industry; already in times long past water, wind, and cattle had been used to replace human power. In the new machinery—which comprised the motor mechanism, the transmitting mechanism, and the mechanised tool—the really revolutionary feature was the mechanised tool, which replaced the skilful motions of the human hand.

This great revolution in the mode of production, namely large-scale industry developing on the basis of powered machine production, brought far-reaching changes in its train. The productivity of labour, the output per man hour, and the total volume of production were immensely increased. In sixty years (1820–1880) output per man increased sixfold in spinning and over twelvefold in weaving, as the following figures show:

		Production in 1,000 lb.	*No. of workers*	*Production per worker in lb.*
Spinning				
1819/20	...	106,500	111,000	968
1880/82	...	1,329,000	240,000	5,520
Weaving				
1819/20	...	80,620	250,000	322
1880/82	...	993,570	246,000	4,039

With the introduction of this new machinery, an ever wider gulf was fixed between capitalist and worker. The new forms of production called for a vast outlay of capital on machines; unskilled labour more and more replaced skilled; women and children took the place of men. With growing power to produce came growing wealth for the capitalists, and growing degradation and squalor for the working masses. At the same time, the machine production in the "dark satanic mills" spelt ruin for the hand-workers in domestic industry, who were forced into the ever-growing ranks of the proletariat.

Now the implements of production were no longer such as the man who worked them might handle and own for himself. They were giant machines, vast factories, great power stations. Production had become social. Never again could the worker own for himself his means of production; either he must remain subject to the clique of wealthy capitalists who hold in their private control the productive resources of society, or else he must free himself by uniting with all other workers to take into social control and ownership the socialised means of production on which the life of modern society had come to depend.

CHAPTER IV

THE ESSENCE OF CAPITALIST EXPLOITATION

Capitalist production is for profit—Cycle of capitalist production—Value of labour-power resolves itself into means of subsistence—Surplus value the difference between the value of labour-power and the value the worker produces—Value of commodities composed of constant capital, variable capital and surplus value—Wages and the class struggle.

What is Profit?

CAPITALISTS use many subterfuges to pretend that the amounts they take in profits are not great; but the facts show what an enormous total is in reality taken by the propertied class in rent, interest, and profit. In 1947 "incomes from property and enterprise" (as given by Dudley Seers in the Oxford Bulletin of Statistics, October 1948), that is, rent, interest from production, profits, and National Debt interest, totalled £3,605 million; in the same year incomes from wages were £3,530 million. There are some twenty million wage-earners, whereas unearned incomes go to a narrow clique of about 200,000 wealthy people who own the bulk of the industrial and commercial property.* (Unearned income in fact takes many forms—and many disguises—such as, interest on loans, debentures, preference shares, ordinary shares, etc., undistributed profit, ground-rent, and so forth—see Chapter VI; for the sake of simplicity, however, unearned income will in this present chapter be described by the one general term *profit.*)

In ancient slave society the source of the wealth of the slave-owner was for all to see. What the slave produced, the slave-owner owned. Feudal exploitation was likewise open and without mystery; the serf knew, only too well, for whom he was working and how much. Slave and serf alike could legally be forced to work by their masters. But capitalist exploitation is different. There is no law compelling the worker to work for the capitalist. There is no law or custom saying how much the capitalist is to get and how much the worker. The riddle of the capitalist's profit can only be solved by delving into the hidden laws and workings of capitalist economy. The worker sells his power to work and the capitalist buys it. The worker stays poor, the capitalist becomes rich and powerful. What is the secret of the capitalist's wealth and the worker's poverty? What is profit and where does it come from?

* Private property of all kinds in Britain in 1924-30 (according to the estimate of Daniels and Campion in *The Distribution of National Capital*) totalled about £15,000 million; of this almost 60 per cent was owned by persons (over twenty-five years of age) with fortunes of £10,000 or more, who numbered less than 200,000—less than 1 per cent of the population (over twenty-five). Of some £5,000 million privately owned stocks and shares—which better illustrate ownership of means of production—two-thirds were in 1930 owned by 200,000 individuals and one-third by 10,000 individuals with private fortunes of £100,000 or over.

Profit—the Motive Force of Capitalism

The process of the circulation of capital is represented by the formula M—C—M[1]. The capitalist starts with a sum of money (M) which he converts into commodities (C), machinery, raw materials, and labour-power; he then sets the labour-power to work on the raw material, and sells the product for more money than he started with (M[1]). This additional money that he gets from the sale of the product is his profit.

It is the capitalist's ceaseless, unremitting aim to make profit and ever more profit. As capitalism develops, so the true type of capitalist develops, the capitalist who with complete single-mindedness seeks to pile up more and more wealth. This enables the capitalist to live in extravagant luxury, but his thirst for wealth goes far beyond the luxurious satisfaction of his needs. The piling up of ever more profits becomes in itself the law of the capitalist's existence. Blindness to this fact is one important reason for the lack of realism in the teachings of capitalist economists, who argue as though the economic activities of the capitalist had no other purpose but the rational satisfaction of wants and tastes; they will not admit that the very conditions of capitalist production and exchange inevitably create in the capitalists an insatiable appetite for profit. "The repetition or renewal of the act of selling in order to buy, is kept within bounds by the very object it aims at, namely, consumption or the satisfaction of definite wants, an aim that lies altogether outside the sphere of circulation. But when we buy in order to sell, we, on the contrary, begin and end with the same thing, money, exchange-value; and thereby the movement becomes interminable. . . . The circulation of capital has therefore no limits. As the conscious representative of this movement, the possessor of money becomes a capitalist, and it is only in so far as the appropriation of ever more and more wealth in the abstract becomes the sole motive of his operations, that he functions as a capitalist, that is, as capital personified and endowed with consciousness and a will. Use-values must therefore never be looked upon as the real aim of the capitalist, neither must the profit of any single transaction. The restless, never-ending process of profit-making alone is what he aims at." (Marx, *Capital*, Vol. I, pp. 128-31.)

How the Merchant Capitalist made his Profits

The earliest form of capital—long before the development of capitalist production—was merchant capital. The merchant in pre-capitalist times got his profit in a quite different way from the modern capitalist, but the very contrast of the difference has point.

In ancient and medieval times the merchant lived as it were in the gaps or pores between communities that depended but little on trade, communities that in most things were self-sufficient. These merchants combined trade with piracy and enriched themselves by plunder and violence. In their trading they made profits by buying

where there was plenty and selling where there was scarcity; they bought cheaply and sold dearly. The markets they served were normally widely separated and the conditions prevailing in the market where they bought would not be known in the market where they sold. *The merchants thus enriched themselves at the expense of those with whom they plied their trade,* themselves standing apart from the productive activities of the communities from whom they bought and to whom they sold. They themselves were not associated with the production of the surpluses that they appropriated.

Profit in Modern Capitalist Society

In modern capitalist society it, of course, happens that extra profits are made by buying cheap and selling dear, but it is not in this way that the capitalist class as a whole makes its vast profits.

In modern capitalism exchange is no longer an incidental link between mainly self-sufficient communities, but all production is for exchange; exchange is everywhere. "The wealth of those societies in which the capitalist mode of production prevails presents itself as 'an immense accumulation of commodities'"—that is, goods produced for sale on the market. The bulk of sales are between capitalists; the capitalist whose workers produce raw materials (such as iron ore) sells to the capitalist whose workers produce semi-manufactured goods (such as steel tubes), who sells to another capitalist whose workers produce a finished product (such as bicycles), who sells to a wholesaler, who sells to a retailer. There are at the same time a host of transactions with sub-contractors supplying components (such as bells or brakes), with suppliers of machinery, of fuel, and so forth. It is very evident, therefore, that if a profit is made by buying below value and selling above value, what one capitalist gains another loses, and the capitalist class as a whole is no better off. The capitalist class as a whole cannot overreach itself. The great profits of the capitalists—equal in magnitude to the total of wages paid to the working class—cannot therefore be thus explained.

Transactions which are not between capitalist and capitalist may occur in trade between capitalists and peasants and other non-capitalist producers. An example is the trade between the great European and American combines and the colonial or peasant producers of raw materials. Here powerful firms use their dominating position to gain for themselves extra profits at the expense of small producers. However, these special profits gained at the fringe of capitalist society do not explain the source of profit as a whole; they explain merely a part of the profits of a special group of capitalists. An extra profit of this kind is, as a rule, obtained only where a particular firm, or group of firms acting together, is able to avoid competition from other capitalists who would outbid them.

The only other transactions (leaving aside the labour market,

which is dealt with later on) are sales to final consumers. The bulk of the consumers to whom the final products are sold are the workers. Are the workers exploited because they have to buy at disadvantageous terms? Sometimes yes, but this is not the root cause of exploitation in capitalist society. However, this has, in fact, been used as a subsidiary means of exploiting and swindling workers. It was in the fight against this form of swindling that the Co-operative movement had its origin when the workers of Rochdale started their own shop at Toad Lane in Rochdale in 1844. Again the Truck Acts which forbade employers to pay workers in kind were intended to protect the worker from this particular kind of swindle; they were, however, repeatedly evaded and, though a Truck Act was passed as early as in 1701, wholesale evasion persistently occurred and was still common in the latter part of the nineteenth century. That swindling in the market is not the basis of capitalist exploitation is evident from the fact that capitalist exploitation continues when the workers buy in a market that is open to all alike. Generally speaking, the market does not—at least under conditions of competitive capitalism—discriminate against any one class of purchasers; and *capitalist profit as a whole in a capitalist society is not derived from buying cheap and selling dear.*

The Cycle of Capitalist Production

"Accompanied by Mr. Moneybags and by the possessor of labour-power ", writes Marx, "we take leave for a time of this noisy sphere [i.e. of exchange of commodities, the market] where everything takes place on the surface and in view of all men, and follow them both into the hidden abode of production, on whose threshold there stares us in the face: 'No admittance except on business'. . . . On leaving this sphere of simple circulation or of exchange of commodities, which furnishes the 'Free-trader Vulgaris' with his views and ideas and with the standard by which he judges a society based on capital and wages, we think we can perceive a change in the physiognomy of our dramatis personae. He who before was the money-owner now strides in front as capitalist, the possessor of labour-power follows as his labourer. The one with an air of importance, smirking, intent on business; the other timid and holding back, like one who is bringing his own hide to market and has nothing to expect but—a hiding." (*Capital*, Vol. I, pp. 154–5.)

The secret of capitalist profit is not to be found in the sphere of commodity exchange and circulation; it must be sought *in the sphere of production.* In this Marxism differs radically from the bourgeois "apologists for capitalism" who treat all economic problems as problems of *the market.* They do not go beyond the sphere of circulation.

When the capitalist sets about production he starts with capital in a familiar form, namely, money, with which he buys the "*means*

of production". The means which he needs to undertake production normally include a factory in which to produce, machinery and tools with which to fashion his raw materials, and the raw materials themselves, including auxiliary materials such as fuel and oil. However, all this is no more than preparation for production. If he is actually to produce, the capitalist must secure workers and set them to work. The capitalist, then, buys raw materials, hires labour-power, rents (or buys) a factory and machinery—in short, changes his money into various commodities (M—C) which he intends not simply to sell (as did the merchants), but to use in the productive process. He sets the workers to work in the factory using the machinery to shape and re-fashion the raw materials. In the end the commodities with which he started have been transformed into other and different commodities. The process of production has been carried out and completed. The newly produced commodities are then sold and the capitalist has back in his hands money, that is, capital in the same form as that with which he started, but—or the capitalist is a disappointed man—there is considerably more money than he had at the beginning. This whole cycle by which the capitalist has turned money into more money may be expressed in symbols thus:

M	—	C	—	P	—	*new* C	—	M^1
(Money)		(Commodities)		(The process of production)		(New commodities fashioned in the process of production)		(More Money)

The problem to be solved is how does M become M^1, how does money become more money and where does the extra money, the profit, come from?

How the Value of the Product is Made Up

Where, as is usually the case, the capitalist buys from other capitalists the raw materials (including fuel, oil, and other auxiliary materials), the value of these—which it must be assumed he buys at their correct value—is one part of the value of the finished product.

A second part of the value of the finished product is the value of that part of the building, plant, and machinery which gets used up in the process of production. Of course, actual bricks and machines do not get swallowed up in one process of production; they become gradually worn out over a period of years. Therefore the capitalist puts on to the other costs an item of " depreciation " based on the average life of such buildings, plant, and machinery as he uses; this depreciation charge is the recognition of the fact that a portion of the value of these items is passed on to the product in the process of production.

The third part of the value of the finished product represents the value " newly added " by the labour of the workers who transform

the raw materials, using the plant, etc., into the finished product.

But whereas the value of the raw materials, plant, etc., used up in making the product corresponds with the value which he bought, and passes unchanged into the value of the finished product, the value newly added by the labour of his workers is greater than the value for which he pays his workers. In terms of cash, the workers are paid less in wages than the added value which their labour gives to the product.

Wages

The capitalist thinks of wages as the price paid for labour. Price is value expressed in money. The question to be answered, then, is: "What is the value of labour?"—or so it seems at first sight. However, a little thought shows that this is a meaningless question. Value itself depends on labour and so to ask: "What is the value of labour?" is rather like asking: "What is the heaviness of weight?" "How could we define, say, the value of a ten-hours working day? How much labour is contained in that day? Ten hours' labour. To say that the value of a ten-hours working day is equal to ten hours' labour, or the quantity of labour contained in it, would be a tautological and, moreover, nonsensical expression." (Marx, *Value, Price and Profit*, Chap. VII, pp. 54-5; M.S.W., Vol. I, p. 312.)

Evidently it is necessary to look more closely into this matter, and to try to discover what precisely it is that a worker sells in exchange for the wages he receives. When a worker takes employment, when he "hires himself" to a capitalist, he, in fact, puts at the disposal of the capitalist for a specified length of time—an hour, a day, or a week—his *capacity* to work, that is, the "aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description." (Marx, *Capital*, Vol. I, p. 145.) The worker does not sell his labour, but his capacity or power to labour, his *labour-power*. He puts his labour-power temporarily at the disposal of the capitalist. The capitalist sets the worker to work and may use his capacities well or ill, wastefully or economically. The worker does not sell the actual contribution he makes to the creation of products; he sells his power to work, his labour-power. This distinction between *labour* —the actual expenditure of human skills and energies (on which depends the value of commodities)—and *labour-power*—the capacity, power to work (which the worker sells for wages)—is of great importance.

Wages, then, are the price of labour-power. Since price is the money expression of value, the next task must be to find out how the value of labour-power is determined.

Value of Labour-power

The value of commodities, as has been shown, depends on the

labour-time required for their production. This is, in fact, as true of *labour-power* as of other commodities. "The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of the special article. So far as it has value, it represents no more than a definite quantity of the average labour of society incorporated in it." (*Capital,* Vol. I, p. 149.) The value of labour-power depends, then, upon the amount of labour-time that must be expended in order that labour-power may exist.

Labour-power exists only in living men and women. In order to live men must have the means of subsistence, food, clothing, fuel, shelter, etc. In order that labour-power may continue to exist, the workers must reproduce themselves, must have children; they must therefore have sufficient means of subsistence, not only for themselves, but also for their children. "The value of labouring power is determined by the value of the necessaries required to produce, develop, maintain, and perpetuate the labouring power." (Marx, *Value, Price and Profit;* M.S.W., Vol. I, p. 315.) The amount and kind of food, clothing, etc., required will vary according to the kind of work done. Therefore the value of different kinds of labour-power will vary. It will vary also because certain types of capacity and skill require a special education or training which takes time during which the worker has to live and on which other expenses may have to be incurred; all these expenses enter into the value of labour-power. Again the worker's "natural wants such as food, clothing, fuel, housing vary according to the climatic and other physical conditions of his country. On the other hand, the number and extent of his so-called necessary wants, as also the modes of satisfying them, are themselves the product of historical development . . . and depend therefore to a great extent on the degree of civilisation of a country, more particularly on the conditions under which, and consequently on the habits and degree of comfort in which, the class of free labourers has been formed. In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known." (Marx, *Capital,* Vol. I, p. 150.)

At the present time the distinction between "real wages" and "money wages" assumes particular importance since the value of money is liable to fluctuate greatly. By "real wages" are meant wages measured not in terms of money but in terms of the goods they will buy. Movements in real wages are normally measured by comparing the change in the cost-of-living index with the change in money wages.

The "fodder basis" of wages is in fact recognised by the capitalists when they make a "cost of living" index for the workers.

As explained already in Chapter III* the existence of a mass of dispossessed workers, "free" to work or starve, is a necessary condition of capitalist production. When there is always another worker at hand to take his place, the capitalist class can in general keep the workers' wages from rising above the subsistence level (as defined above), that is wages do not normally exceed the value of labour-power.

Summing up, therefore, we see that the value of labour-power resolves itself into a definite quantity of the means of subsistence which depends on *(a)* physical needs; *(b)* customary and historically developed needs; *(c)* requirements for upkeep of family; *(d)* expenses of education and training.

The Living Standards of the Workers

The capitalist class goes to extreme lengths to ensure that the worker is not able to sell his labour-power above value, re-enacting often the violence of "primitive accumulation" in order to swell the ranks of the proletariat and to ensure that there are always more workers than jobs, always a "Reserve Army of Labour". If ever in periods of labour scarcity, the workers are able to force some temporary concessions, the capitalists are certain at the earliest opportunity to take vigorous counter-measures, often using—as after the First and Second World Wars—the right-wing representatives of capitalism within the Labour movement to help them break the workers' resistance.

The general law that labour-power does not normally sell above its value is not disproved by national and other differences in wage levels. Historical circumstances, differences in physical needs due to differing productive or climatic conditions, general levels of education and training result in different levels of wages in different countries, different industries and different stages of history. Under such differing circumstances the minimum standard of living and the minimum of goods that the worker must be able to buy will necessarily be different. In order to make exploitation effective in face of changed economic circumstances it may even be necessary to raise living standards. The following extracts from *The Times* (17.12.48) illustrate this and other facts about the conditions of the proletariat in Africa. "Formerly the low productivity of African labour was tolerated because it was cheap and abundant.... Natural idleness was checked by physical compulsion. Now development reaches a point where it cannot progress without greater individual effort. . . . Most Europeans have for centuries embraced a religious code which condemned idleness as wicked; his cults and taboos have more frequently taught the African that work is degrading or evil. His universal attachment to the land removes the threat of want if . . . he is prepared to live at a low level of subsistence.

* See also Chapter V, p. 76, dealing with capitalism's ever-present army of unemployed—the "industrial reserve army".

Simplicity of needs, together with shortage of consumer goods, robs money wages of their value. . . . Nobody can deny the ugly aspects of mass employment of natives in plantation, industry and mine." However, the African population of 160 millions "by greater effort . . . can produce surpluses which will raise its own standards *and minister to the need of others* [our italics]. . . . The problem, therefore, is how to improve the output of the individual native. . . . First and foremost he must be made physically fitter . . . by means of improved diet. . . . It involves also improved health services. . . . Provision of consumer goods as incentives to labour is important. . . . Education reacts on productivity in many ways. . . . It engenders the desire to compete. . . . It can enable him to rise from the manual to the technical and even professional level. . . . It induces him to want a higher standard of living and therefore to work harder." In order that the wage-slave may be able to produce more profit, his standards of living must be changed!

Wage levels in Britain barely cover the minimum needs of the workers under the conditions in which they work and live. In 1946 a wage of £5 15s. was necessary merely to keep a family with three children in health and working capacity [see *Wages Front,* by Margot Heinemann, p. 42]. In October 1946 average weekly earnings for adult men *of all grades* were below £5 in flax spinning and weaving, small boot and shoe repair shops and local authorities' non-trading services, and below £5 10s. in woollen and worsted, lace, textile bleaching, dyeing and finishing, boot, shoe and slipper making, laundry service, saw milling and machined woodwork, building and decorating.

" Sir John Orr . . . found ", writes Margot Heinemann, p. 42, " by a careful survey of actual family budgets and diets, that families spending less than 9s. per head per week on food in 1935 were in practice seriously under-supplied with many of the most important vitamins and minerals necessary to health. This group of families, judging from the available statistics of income distribution, included more than a third of the population. Since that date the increase in the price of food has been of the order of 42 per cent, so that the figure of 9s. in 1935 would be equivalent to 13s. in 1946. Since food expenditure even in the lower groups is seldom more than 40 per cent of income, it would seem likely that a family of five with an income of less than £8 2s. 6d. or thereabouts is likely to be living on a diet deficient in several important constituents." In 1936 the very bare " Rowntree minimum " for man, wife, and three children was 53s.; an official survey of earnings in all industries made in 1935 showed that earnings in general engineering averaged 53s. 6d. This level was exceeded in seventeen industries, the highest being newspaper printing, etc., 100s., and iron and steel smelting and rolling, 66s., and not reached in twenty-six industries, the lowest being wholesale tailoring and dressmaking, 31s.-33s., and cotton spinning, 32s. 6d.

The Secret of Surplus Value

The values which the workers produce far exceed the value of their means of subsistence, that is, the value of their labour-power, which the capitalist buys by paying wages.

The values which the capitalist acquires in the form of raw materials, factory buildings, machinery, etc., produce no new values but are embodied unchanged in the value of the final product. These values remain constant and for that reason this part of the employer's capital is described as *constant* capital. On the other hand the values which the employer devotes to wage payments expand, become more than they were to start with. They vary, and for this reason this part of his capital, namely wages, is called *variable* capital. All turns on the difference between the value of the worker's labour-power that the capitalist buys and the value that the worker creates when he is set to work. Labour-power is, in fact, a commodity which has the peculiar property of creating value when it is used greater than its own value. However free, open, and " fair " the labour market may be, the capitalist still stands to make his profit.

Once this is understood the secret of profit has been grasped; the source of profit is the difference between the value of the worker's labour-power and the value he produces. *The value which the worker produces over and above the value of his labour-power is called* ***surplus value.***

The following figures relating to the cement industry provide a practical example. (The figures are in the main derived from those given in Dr. Rostas' survey in *Productivity, Prices and Distribution*, C.U.P. 1948.) In 1935 wages in the industry were about 65s. a week —rather more than the average for all industries. Cement sold (wholesale) for £2 a ton and the selling price paid to the works (the " factory selling price ") was just under 30s. a ton, made up as follows:

	s.	d.	
Depreciation on fixed capital ...	3	7	*Constant capital*
Materials, etc.	12	0	
Wages	4	0	*Variable capital*
Total costs per ton ...	19	7	
" Factory selling price "	29	7	
Margin over costs* ...	10	0	*Surplus value*

* The 10s. surplus includes 1s. 2d. a ton for payment of salaries of managerial staff, etc., a part of which should be accounted as productive costs. In general, the true amount of surplus value is *underestimated* because additional surplus value goes—see Chapter VI—to the merchant out of the margin of 10s. between wholesale and " factory " price.

The Rate of Surplus Value and the Class Struggle

The unceasing aim and mission of the capitalist is to increase his profit, to expand his capital. He struggles, therefore, untiringly, by all and every means to increase his share of the values created by labour and to decrease the share going to the worker as wages. The ratio of surplus value to wages is described as *the rate of surplus value* (or, to express the same thing mathematically, the rate of surplus value equals s/v where s equals surplus value and v equals variable capital or wages). The rate of surplus value is also described as *the rate of exploitation.*

In the example from the cement industry the new values created by the workers' labour amount to 14s. in every ton of cement and a surplus of 10s. is produced on 4s. of variable capital (wages). The rate of surplus value is 10:4, that is, 250 per cent. (In British industry as a whole the rate of surplus value is at least 200 per cent —see Chapter X).

Of the new values produced a part is "paid for" in wages and a part is "unpaid" surplus value; so we may also say that the working day is similarly divided, thus:

WAGES	SURPLUS
Paid	*Unpaid*

In the cement industry in 1935 the division of seven hours' labour-time was, roughly, 12s. wages: 30s. surplus; or, two hours "paid": five hours "unpaid".

The capitalist ceaselessly strives to increase the rate of surplus value. This he may do in the following ways (which are dealt with more fully in the next chapter):

(i) by extending the working day without increasing wages,

(ii) by reducing wages without reducing the working day or output,

(iii) by increasing output per hour either by (a) forcing the worker to work harder per hour for the same wage, or by (b) improving methods of production.

The capitalist class struggles by every means to increase its share in the values newly created by the workers' labour. The interests of capitalist and worker are thus diametrically opposed; each struggles to change the division of the working-day in opposite directions, the one to increase wages, the other to increase profits, the one to end the wages-profit system, the other to maintain it. The history of capitalism is the history of conflict between the capitalist class and the working class.

Wages and the Struggle Between Capitalist and Worker

The class struggle assumes many different forms, the most fundamental and most direct being the conflict between employer and worker in the factory—the unremitting struggle of the employer to keep wages down, to get as much work as possible out of the worker

and, on the other side, the worker's continual fight for tolerable conditions. This struggle over the division of the working day, the ceaseless striving to increase the rate of surplus value, is the economic basis of the class struggle. The class struggle springs, therefore from the very essence of capitalist production.

The motive of capitalist production is profit. For the capitalist the most direct way of increasing profits is by reducing costs and the most direct way of reducing costs is by cutting wages, or else by increasing output without a corresponding increase in wages. These are the ways in which the question of the division of the working day is seen through capitalist eyes. Throughout the history of capitalism the employing class have expressed their greed for profit in the most blunt manner. In the last century the capitalists fought against limitation of the working-day to ten hours; they fought against legislation curbing the brutal exploitation in factory and pit of children, not to say infants; they fought against social legislation extending health services, education, and so forth. So today capitalists fight against extension of social services and against improvements in the workers' standards of life.

The greatest danger to profits and the profit system is united and combined action by those whom the capitalists exploit. They therefore fought for long by legislation to forbid trade union organisation, and when the forbidding of trade unionism was no longer possible they tried to hamper it, as, for example, in recent times with the Trades Disputes and Trade Union Act (1927) in the United Kingdom and the Taft-Hartley legislation (1947) in the U.S.A. When the capitalists feel themselves threatened, they try to enforce the extreme measure of legally outlawing trade unionism. Other types of legislation (for example, taxes hitting the low-income groups) are also used to further the interests of the capitalist class at the expense of the workers.

The exercise of force by the State is but the violent continuation of the domination which finds "peaceful" expression in legislation. Here again and again the use of force by the police or the armed forces protects the interests of the capitalist class. In the most ruthless form of capitalist state, the fascist state, the use of violence and terror against trade unionists and militant workers is resorted to continuously and unremittingly.

Finally, the control of the press and other means of disseminating information by capitalists or those whose outlook is that of the capitalists plays an important part in the class struggle. The workers are misinformed, confused, and misled by organs of propaganda which unceasingly depict events from the capitalist standpoint. In this field capitalist domination of social and economic thought is a matter of no small importance. The successful boycotting of Marx's economic teaching in the curriculum of most educational institutions in Britain and the substitution of "bourgeois" economics which reject the labour theory of value—and therewith the whole

doctrine of surplus value—in favour of worthless theories which hide the nature of capitalist exploitation, is but a further way in which class struggle and class domination pervades the realm of propaganda and ideas.

The class struggle finds its most direct and open expression in strikes and lock-outs. " The incredible frequency of these strikes ", wrote Engels in 1844 in his *Condition of the Working Class in England,* " proves best of all to what extent the social war has broken out all over England ". Again at the end of the nineteenth century there was a great new wave of strike struggles, the " match girls' " strike in 1888, then the gasworkers' strike, winning an eight-hour shift and a wage increase, then the great dock strike of 1889, and the formation of new mass unions of the unskilled. " The new unions were founded ", writes Engels, " at a time when the faith in the eternity of the wages system was severely shaken." Throughout the period of capitalism's general crisis in the twentieth century, capitalism has been shaken by repeated waves of mass strike struggles. In the three years 1919 to 1921, 6½ million workers were involved in strike struggles aggregating 150 million working days. In 1926, the year of the General Strike, 2,700,000 workers were on strike for a total of 160 million working days. Between 1929 and 1932, 1,700,000 workers were involved in over 1,600 disputes totalling 26 million working days.

As the crisis of capitalist society deepens the immediate economic demands of the workers become more and more bound up with political struggles. All the heroic battles of the workers within capitalism do little more than hold back the capitalists' attempts to force wages below the value of labour-power. Ought the working class on this account " to renounce their resistance against encroachments of capital, and abandon their attempts at making the best of the occasional chances of their temporary improvement? If they did ", Marx answers, " they would be degraded to one level mass of broken wretches past salvation." However, " the working class ought not to exaggerate to themselves the ultimate working of these every-day struggles. They ought not to forget that they are fighting with effects but not with the causes of those effects." (*Value, Price, and Profit,* Chapter XIV, M.S.W., Vol. I, p. 337.) The most lasting achievements of the workers' struggles are in fact the new strength and experience that they gain for new struggles. " They are the school of war of the working men ", wrote Engels, " in which they prepare themselves for the great struggle that cannot be avoided; they are the pronunciamentos of single branches of industry that these, too, have joined the Labour movement." Inevitably the political and economic struggles of the workers interlock.

Thus, on the basis of the struggles of the British working class in the early nineteenth century, the Chartist movement developed; and at the end of the nineteenth century the Labour Party was formed in

order to further the aims of the trade union movement in the political field. Ultimately, out of the struggle to safeguard the interests of the workers within capitalism, the workers are gripped by the understanding that capitalism must always mean for them insecurity, poverty, and war. Then the most determined, sincere, clear-headed representatives of the working class come to understand the need for a revolutionary party of a new type which, guided by Marxist theory, can serve as an " organised detachment " giving leadership to the struggles of the working class as a whole. Then the day-to-day struggle to safeguard the workers' interests becomes merged with the wider struggle to take power from the capitalists and abolish the capitalist system.

Abolition of the " Wages System "

The trade unions are the *schools* in which the working-class learns the lessons which ultimately will bring them complete and final victory over the capitalist class. Since the immediate results of the day-to-day struggles are necessarily limited, the working class " ought . . . not to be exclusively absorbed in these unavoidable guerilla fights. . . . They ought to understand that with all the miseries it imposes upon them, the present system simultaneously engenders the *material conditions* and the *social forms* necessary for an economic reconstruction of society. Instead of the *conservative* motto: 'A fair day's wages for a fair day's work!' they ought to inscribe on their banner the *revolutionary* watchword: 'Abolition of the wages system!' " (Marx, *Value, Price, and Profit*, M.S.W., Vol. I, p. 337.)

CHAPTER V

CAPITAL AND ACCUMULATION

Capital is above all a social relation—Capital as dead labour ruling over living—"Fetishism of Commodities"—Different forms that capital assumes—Absolute and relative surplus value—Why capitalism revolutionises methods of production—Accumulation and its social consequences.

"Capital" Implies a Particular Historic Period

MARX called his work on political economy (which runs into some 3,000 pages) *Das Kapital* or *Capital.* This title gave to the work a clear historical focus; it showed that it dealt primarily with that stage in the economic development of human society which is distinguished from others by the dominance of ***capital.***

"Capital" in Common Parlance

The word "capital" is commonly used with three types of meaning:

(i) as the store of means of production, tools, machines, houses, factories, mines, worked-upon land, stocks of food and raw materials, goods partly worked up, and finished products, etc.—all the various assets that help to further the production of what the community needs;

(ii) as a substantial *sum of money* that may be used to buy instruments of production, to pay wages, or purchase raw materials; in short the "wherewithal" to set up in business;

(iii) as State Securities, stocks and shares in companies, etc., which may or may not represent real instruments of production, or money subscribed as shares or loans.

All these are casually descriptive uses of the word "capital"; however, they do not describe the reality, the actual goings on. They describe only limited, "matter-of-fact" aspects of things. One of the essential features of capitalism is the ownership of the means of production by a small group of the community, the capitalists. In the United Kingdom, two-thirds of the wealth is held by one per cent of persons. The titles to the ownership are the shares of the companies, etc., and ownership of instruments of production must be supplemented by money with which to buy other means of production, such as raw materials, and with which to pay wages, etc. However, in themselves the means of production are of no use to the capitalist unless workers can be applied to them to work them; but, because the capitalist owns the means of production and the worker does not, he is able to force the worker to work for him. It is the old slave relation in another form. If the worker does not work for him then the worker will starve. So the worker does work for him, and when the worker applies himself to the means of production, surplus value is produced, and the capitalist gets an income

from his possession of them which he would not get if no one worked on them. An idle factory—no income; a busy factory—£100,000 a year.

Capital Embodies Specific Social Relations and Historic Conditions

Evidently "capital" means something more than the common use would imply. Means of production have existed under all sorts of society and will go on existing; they in themselves have nothing to do with surplus value. Means of production do not become capital until they are owned by a small group in society *and used to extract surplus value*—which, in turn, can only be done because the workers are driven by starvation to work for the small group of capitalists. Capitalists facing workers in a commodity-producing society, capitalists owning money and means of production, workers free to work or starve: that is the essence of the matter. This is the foundation of all the normal capitalist illusions of a "free society". The worker sells his capacity to work in a "free" market; the capitalist buys it, sets the worker to work on *his* means of production, and sells the products in a free market. The capitalist makes profits and is rich; the worker gets his wages and stays poor. Is the worker compelled to produce profits for the capitalist? Of course not! He is a free man; free to starve if he so prefers!

Capital, then, is not just a sum of money, or instruments of production, or stocks and shares; it is all these things, but under certain very definite historical and social conditions. These conditions are that the means of production are owned by a small group of people—the capitalists—opposite to whom stand the propertyless workers compelled by starvation to work for the capitalists and produce surplus value. Capital therefore takes the material form of means of production, etc., but it is not capital by virtue of its material properties but by virtue of the social relation between the owners of means of production and the workers. Capital, therefore, is above all a social relation.

Capital as Dead Labour Ruling Over Living Labour

Outwardly the means of production are means of making future production easier. But inwardly what are they? Where did they come from? Did the capitalist make them? Of course not. They were all made by the workers—a week ago or twenty years ago. Therefore they embody workers' time and labour. But the labour they embody is now "dead". A factory without workers produces nothing. A farm with the labourers away produces only weeds. All these things need the human touch to vitalise them. The continuous application of human labour, present human labour, is needed to make them any worth to the capitalist. However, in capitalist society, it is the owners of the dead labour (instruments of production, raw materials, etc.) who dominate and subjugate the living labour. "It is only the dominion of accumulated, past,

materialised labour over direct, living labour, which turns accumulated labour into capital. Capital does not consist in accumulated labour serving living labour as a means of new production. It consists in living labour serving accumulated labour as a means of maintaining and increasing the exchange value of the latter." (Marx, *Wage, Labour and Capital,* M.S.W., Vol. I, p. 266.)

The Turnover of Capital

Like a body of which the flesh and tissues must be continuously renewed if life is to be sustained, the physical substance of capital must continuously assume new forms, if capital is to " keep alive ". A factory or machine that remains idle deteriorates and becomes obsolete and brings no profits to the capitalist, but a factory or machine in use gives up its value to the commodities produced and when the commodities are sold the capitalist gets back the values of the dead labour embodied in his means of production (raw material, machines, factory, etc.) plus the new values added by the living labour which repay what has gone into wages and provide him with a handsome amount of " surplus value "—the value over and above the value he started with. Life for capital means making profit; capital lives by being used. It must ceaselessly go through its cycle of transformations from money into raw materials, machines, and the wages of workers who use up these means of production in making the new commodities which are sold and so transformed back into money which again is transformed into raw materials, wages, etc., and so on till the cycle is again complete.

This process is called the turnover of capital. If the turnover is baulked, then capital is sick; profits are lost, and capital, unable to pursue its career of endlessly repeated transformations, dwindles in value and perishes. Of this sickness of capital, when the turnover is checked and thwarted, more will be said in Chapter VIII, which deals with capitalist crisis. For the moment it need only be shown that the very existence of capital hangs upon this unceasing turnover which, in turn, depends on a most intricate chain of links and interconnections in the market; for not only must the capitalist find workers " free " to sell their labour-power, he must also find other capitalists ready to sell him the machines, the raw materials, the tools, the fuel, the thousand requisites of the productive process; and when all is done, when the products are complete and ready for sale, the purchaser must be found who will give him in money the value of his products so that all may start over again.

Some Bourgeois Notions of Capital

Alfred Marshall, one of the most famous exponents of bourgeois economics, has the following definitions to offer. " The language of the market-place commonly regards a man's capital as that part of his wealth which he devotes to acquiring an income in the form of money. . . . It may be convenient sometimes to speak of this as his

trade capital; which may be defined to consist of those external goods which a person uses in his trade, either holding them to be sold for money or applying them to produce things that are to be sold for money. Among its conspicuous elements are such things as the factory and the business plant of a manufacturer, that is, his machinery, raw materials, any food, clothing and house-room that he may hold for the use of his employees and the goodwill of his business." (Marshall, *Principles of Economics*, Eighth Edition, Macmillan, 1938, pp. 71-72.) Later he adds: "By far the most important use of the term Capital in general, i.e., from the social point of view, is in the inquiry how the three agents of production, land (that is, natural agents), labour, and capital, contribute to producing the national income . . . and how that income is distributed among the three agents. And this is an additional reason for making the terms Capital and Income correlative from the social as we did from the individual point of view. Accordingly it is proposed in this treatise to count as part of capital from the social point of view all things other than land, which yield income that is generally reckoned as such in common discourse." (p. 78.) This is very typical of bourgeois economics "at its best"; it is plausible because it is superficial. It simply sets out in a seemingly matter-of-fact way the outward appearance of things, but avoids penetrating into the underlying reality. What is capital? Things that produce income. What is income? Something produced by capital. This *seems* to be quite true; after all, a man who owns a factory gets a large income and superficial appearances suggest that it is the factory that produces the income: So obvious, so matter of fact! But, if one pauses to think a little, it will be remembered that the source and secret of the capitalist's income is the very thing to be explained. And the only explanation offered is that capital *produces income*! Things such as machines and buildings, etc., *produce* nothing. Leave a machine in a shed and it produces nothing; it only rusts and becomes covered with cobwebs! Apply human labour to the machine and then you can get production; but without human labour there can be no production. Likewise, land without human labour does not produce the crops men need and even the few foods that grow wild can only be gathered by human labour. In short, in economics "*produce*" means always the raising, changing, fashioning of the goods of nature *by human labour*.

Another more "up-to-date" bourgeois textbook—F. Benham, *Economics* (Pitman, 1946, p. 138)—says: "It is generally agreed that capital is a *stock* or *fund* existing at a given moment, as opposed to income, which is a *flow* over time: so much per week or per year." Again the same superficiality, coupled with neglect of the historical significance of capital, and Benham (p. 139) even applies the term in such a way as to cover goods such as cars and houses entering into private consumption and playing no part in the process of production! However, the major defect in his definition—in

essence little different from Marshall's—is that it neglects the relations of men and classes lying behind things.

"Fetishism of Commodities"

Marx drew special attention to the misleading appearances and delusions to which commodity production gives rise, in order that the superficialities and errors with which bourgeois economists fill their writings, might be understood and avoided. In his chapter on "The Fetishism of Commodities" he writes (*Capital*, Vol. I): "A commodity appears at first sight a very trivial thing, and easily understood. Its analysis shows that it is, in reality, a very queer thing, abounding in metaphysical subtleties and theological niceties."

Marx then goes on to show that the relations of men in production (that is, the relation of each producer to the total productive efforts of society, and the relationship of classes in production) appear only in the exchange of commodities on the market, and that there the value of the commodity makes itself felt as though it were a property belonging to the commodity in itself and quite independently of the human being engaged in production. So it is that bourgeois economists see things exclusively in terms of relations of exchange. Their whole theory aims at being a theory of the market, and fails because it does not recognise that relations between commodities on the market must be seen as a *reflection* of the relations of men in production if the real nature of commodity exchange and the laws governing the level of prices are to be understood.

"A definite social relation between men", says Marx, ". . . assumes . . . the fantastic form of a relation between things. In order, therefore, to find an analogy, we must have recourse to the mist-enveloped regions of the religious world. In that world the productions of the human brain appear as independent beings endowed with life, and entering into relation both with one another and the human race. So it is in the world of commodities with the products of men's hands. This I call the Fetishism which attaches itself to the products of labour, so soon as they are produced as commodities." (Ibid., p. 43.)

Men only begin studying the society in which they live when that society has fully developed. The social scientist has therefore to take a course, as Marx puts it, in the opposite direction to historical development. He starts with the results of social development ready to hand before him. Society has certain developed forms and set characteristics which do not seem to be subject to change, but rather to have existed from the beginning of time and to be destined to remain in existence until the end of time. It is just these set forms which belong to and have developed historically as a part of a particular mode of production (namely, commodity production) that the capitalist economists accept as eternal facts which require no further explanation or analysis. It is this which makes

their doctrines superficially plausible and at the same time prevents them from giving a scientific and penetrating explanation of economic realities. "To what extent some economists", writes Marx, "are misled by the Fetishism inherent in commodities, or by the objective appearance of the social characteristics of labour, is shown, amongst other ways, by the dull and tedious quarrel over the part played by nature in the formation of exchange-value. Since exchange-value is a definite social manner of expressing the amount of labour bestowed upon an object, nature has no more to do with it, than it has in fixing the course of exchange." (Ibid., p. 54.) And, says Marx, when they deal with capital their "superstition comes out as clear as day".

Fixed and Circulating Capital

The sums of value (embodiments of "congealed" labour) that figure as capital, assume, as has been seen, a number of different forms—money, shares in companies, machinery, factories, raw materials, etc. Some of these forms merely represent titles to ownership (as a *share* represents a title to ownership of a certain part or share of the capital of a company); some are "real" forms that capital assumes in the course of its "turnover". The forms assumed by capital are classified in various ways; there is (and this is of particular importance for the purposes of capitalist accounting) the distinction between *fixed* and *circulating* capital. *Fixed capital* describes buildings, plant, machinery, etc., all those things necessary to the process of production which are used over and over again and yield up in each cycle of production only a part of their value.

With fixed capital is contrasted *circulating capital*. Whereas fixed capital is used up gradually and yields its value gradually, the material form assumed by circulating capital (leather, for example, used by a shoe-maker) is consumed during the creation of the individual product into which the whole of its value is embodied "at one go". Circulating capital consists broadly of raw materials and wages. It is not "tied up", it turns over rapidly, and at the end of each turnover the capitalist is free to decide what he does with it—he can either put it to the same use as before, or put it to some other use. The *fixed* capital on the other hand is "tied up". It either has to be used for the purpose it was designed to serve or it lies idle, its value wasting away without yielding any profit. The distinction between fixed capital on the one hand, and circulating capital on the other, since it draws attention to the fact that different parts of the capital turn over at different rates, is therefore very important to the capitalist who is calculating all the time how to secure as big profits as he can. However, this distinction, important as it is, masks a more fundamental distinction, that between constant and variable capital, which whilst of little significance to the capitalist who is calculating how to maximise profits, is fundamental to an understanding of how the economic system as a whole works.

Constant and Variable Capital

In order to understand capitalist society and its "laws of motion", it is necessary before all else to grasp the relationship of classes, workers and capitalists. In this the distinction between *constant* and *variable* capital is of fundamental importance. The means of production are not, it has been seen, by themselves of any use; they are only means to produce surplus value. This is true of machinery and equally true of raw materials. The value in them is "dead" and needs the current touch of living labour to be brought to life. Then the value in the machinery (a smaller or larger part of the total value of the machine depending on the length of the life of the machine by comparison with the production period) and the value in the raw materials, value produced by other labour some time in the past, passes—unchanged in size—into the new product. The value of all these commodities, which were produced some time in the past, remains *constant. All, therefore, that the capitalist spends on commodities other than labour-power, everything, in fact, that he puts into the productive process, is called constant capital.*

On the other hand, the surplus value that the capitalist aims to get all comes from the living, current labour. He pays out wages (buys labour-power) and the worker produces a value greater than the value of his own labour-power; he adds to the value of the raw materials and machines he uses, a new value greater than that the capitalist paid out in wages. Capital expended on wages therefore does not stay the same, it grows, changes; it is *variable. We therefore call the capital expended on labour-power (the wages bill), variable capital.* (See also Chapter IV, p. 56.)

Variable capital is the money the capitalist spends on wages. Outwardly wages are, of course, just money. The worker receives his money and spends it on food, clothing, housing, pleasure, and so on; but for the employer all this is a capital investment. It is an investment by him in human labour. If he doesn't pay—then his capital does not go on turning over, it does not keep alive and it yields him no surplus value. If he does—then he gets the worker in his factory; and gets his surplus value. The capitalist does not therefore "give" employment; what he pays in wages is *variable capital* which *is an investment in human labour,* the advance of food, clothing, etc., to keep the worker alive and active. It is only out of this variable capital that the capitalist gets his surplus value, and therefore his profit.

Absolute and Relative Surplus Value

The motive of capitalist production is profit. The key to increased profit is to increase the unpaid portion of the working day in relation to the paid, to increase the surplus product in relation to the product necessary to supply the workers' means of subsistence or, to say the same thing in other words, to increase the rate of surplus value (s/v).

The most obvious way of trying to do this is by lengthening the working day without increasing wages. With this aim the early industrial capitalists indulged in the most brutal exploitation of their workers. Women and children were driven as ruthlessly as men to endure hours of work that, literally, killed them. Speaking of the match industry, Karl Marx writes: " Of the witnesses that Commissioner White examined (1863), 270 were under 18, fifty under 10, ten only 8, and five only 6 years old. A range of the working day from 12 to 14 or 15 hours, night-labour, irregular meal times, meals for the most part taken in the very workrooms that are pestilent with phosphorus." (*Capital*, Vol. I, p. 236.) The history of Britain a hundred years ago is crammed with innumerable examples from every industry of the most horrible exploitation by extending the working hours to the very limits of human endurance; indeed, beyond the limits in so far as countless workers were driven by the exactions of capital to an early death. A halt was called to this industrial murder only after long years of struggle by the workers, in which the Chartist movement played a big part. " Capital is reckless of the health or length of life of the labourer, unless under compulsion from society." (Marx, *Capital*, Vol. I, p. 255.) This compulsion did not become effective until 1860; at last the Government began to provide for adequate enforcement of laws limiting the working day. (The many laws enacted in earlier years had been largely ineffective since no inspectorate had been provided to see that the provisions of the laws were observed.)

As today a host of " learned " economists shame and disgrace their calling by elaborating—with all sweet reasonableness and repeated sighs of regret—a score of reasons for reducing the workers' standards, so a hundred years ago their counterparts found smooth-tongued reasons for justifying the degradation and murder of countless proletarians by intolerable lengthening of work into all hours of the day and night. For example, Nassau W. Senior, Professor of Political Economy at Oxford, used the full authority of the status to which bourgeois society had exalted him to fight against the agitation for a ten-hour working-day, and solemnly wrote that in a typical cotton-mill " the whole net profit is derived from the last hour ". (Senior, *Letters on the Factory Act, as it Affects Cotton Manufacture*, London, 1837.)

Senior's contention was soon proved a lie by events themselves.* Capitalism had to accept the Ten-Hours Act (1874) and turned to new ways of increasing its profits. As usual capital had been blinded by greed, and evidence was soon to be forthcoming that the product of the reduced working hours was in fact as great as that of the longer hours.

* In much the same way the arguments of his modern counterparts in 1931 and 1947, who urged the cutting of social services, came soon to be recognised as worthless misrepresentation, but they nonetheless had telling effects at the time they were uttered with the solemn backing of academic authority.

Since the middle of the nineteenth century the main effort of the capitalist class has been to increase surplus value by getting more out of a limited number of working hours rather than by ruthless extension of the working time. This change in emphasis has not, of course, prevented the capitalists from fighting against reducing and for lengthening the working day as and when opportunity has offered. The main emphasis has, however, been on packing more and more productive effort into each minute of the seven, eight, nine or ten hours of the " normal " working day which each worker spends in the factory. In short, the main thing has been to increase the *intensity* of work.

Clearly, if an employer can get his workers, without extra pay, to do as much in each hour as before they did in two (by, say, getting workers in the weaving industry to supervise twice as many looms) he is as well off as if he had doubled the working day.

There are a number of devices which help the capitalist to increase intensity of work. These include (1) *Strict supervision and discipline*, that is, fines for lateness or absences (such as going to the lavatory) during working hours, curtailment of meal-times, etc. (2) *Methods of wage payment*. The forms of wage payment become a battleground between the employer and the trade unions. Piece-wages, that is, wages based on output, provide the capitalist with a means of forcing the worker to work hard throughout the working day, since on this depends how much the worker takes home at the end of the week. At first sight it might seem that the payment of piece-wages contradicts what has been said previously about wages and the value of labour-power approximating to the value of the worker's means of subsistence. Payment " by the piece ", that is, according to output, suggests that when production goes up wages will go up correspondingly. This is only true in the very short run. Workers' experience through many decades has shown that piece-wages are always in the end fixed at prices which are based on time-wages and the sum of goods that the worker must buy in order to live. If production increases sharply the piece-rates are soon cut. Piece-wages for a full day's work may, it is true, tend to work out at a little more than the time-rate for the day, but against this must be set the fact that greater intensity of the work increases the worker's needs. However, it pays the capitalist to pay more for piece-work since the extra exertion called forth increases the amount of surplus value produced by an amount that considerably exceeds any little extra paid in wages. (This also is the economic explanation of the capitalist doctrine of high wages, also known as " Fordism "—to which (3) below also applies. Relatively high wages may, it is true, go with the most ruthless speed-up methods, but as workers who have " had some " will say, " you are finished at forty ".)

The capitalist pays the worker " by the piece " in order to make him stretch himself, but he takes good care to see that the total

wage he pays approximates to the value of the worker's labour-power. What the worker earns has, therefore, nothing to do with the value that he produces.

(3) *Conveyor-belt and other speeding-up systems.* Not all productive processes are equally adaptable to piece-work. Capital in the past sought by a variety of means to get the advantages of the piece-work system even where it was not applicable; for example, jobs in which the output of each individual worker could not be assessed were sub-contracted to the leader of a team of workers (as in the butty system in the mines). In modern factory organisation the conveyor-belt and similar systems have been adopted over an increasingly wide range of industries. In the conveyor-belt system "the job" is carried along on a moving belt and each operation must be carried out at the speed dictated by the belt. The worker cannot, therefore, ease off when he feels inclined to do so.

(4) *"Cajoling" methods.* As the workers have increased their political strength and have improved their organisations, the capitalists have needed more and more to supplement brute force and the threat of the sack by "cajoling methods". Many capitalists try, by providing minor amenities, to "appease" their workers and so to get more out of them. By introducing such devices as profit-sharing* and pension schemes they hope to mask exploitation and to give their workers a material incentive to stay in their employ.

To sum up, then, the capitalist may increase the unpaid labour that he appropriates either by lengthening the working day or by increasing the intensity of work. Both methods "get more out of the worker", both methods add to the amount of surplus value that the worker produces, directly and simply because he does more work for the capitalist.

The capitalist would also increase the rate of surplus value if he forced a reduction in wages. This he repeatedly tries to do but here a limit is imposed by the minimum necessary to maintain the workers in a fit condition for work. There are, however, other ways in which the unpaid portion of the working-day (the surplus) may be increased relatively to the paid portion (wages). For example, if by improved methods of production the worker's output is increased, the capitalist's surplus relatively to wages will increase. His surplus will also increase, if wages go down because the value of the worker's means of subsistence falls (for example, if the labour-time required to produce a bushel of wheat falls and the value—and price—of bread falls correspondingly). In these latter cases the surplus increases, even if the length or the intensity of the working-day is not increased; although there is no *absolute* increase in the amount of effort expended by the worker, his share in the product

* Detailed analysis of profit-sharing schemes operating in Britain in the 1920s and 1930s showed that wages plus profit shares in firms operating such schemes averaged less than average wages paid by other firms in the industry.

of his working-time is *relatively* less. The distinction between the method of increasing surplus value described in this paragraph (*relative surplus value*) and that described in the preceding paragraph (*absolute surplus value*) is of considerable importance.

The following is Marx's definition: " The surplus value produced by prolongation of the working day, I call *absolute surplus value.* On the other hand, the surplus value arising from the curtailment of the necessary labour-time, and from the corresponding alteration in the respective lengths of the two components of the working day, I call *relative surplus value.*" (*Capital,* Vol. I, p. 304.)

Relative and absolute surplus value are often found going hand in hand. In the early nineteenth century the very machines that increased productivity at the same time made possible the ruthless extension of the working day of the machine-minders and the merciless depression of wages as more and more unskilled women and children were employed. In the twentieth century the conveyor-belt and " stop-watch " methods of increasing the intensity of work have gone hand in hand with technical developments.

Relative Surplus Value

Relative surplus value arises from increased productivity due to better machinery, better organisation, and other technical advances that the capitalist may introduce; but—if we go to the root of the matter—only in so far as these result in cheapening the workers' necessaries of life. The capitalist who improves methods of production does so not to lighten the work of the worker or to enrich the community at large, but solely in order to increase his profits. The improved methods enable him, he calculates, to get a greater output per worker and to reduce costs per unit of output. The capitalist calculates his costs against the market value, which is determined by the *average socially necessary labour-time.* By introducing a new and improved technique he will reduce his labour-time per product below the social average and will reap an extra profit accordingly so long as this happy state of affairs lasts. The lure of extra profit unceasingly stimulates technical change, particularly under conditions of unfettered competition between capitalist and capitalist. Under these circumstances the advanced technique does not for long remain advanced and above the social average. Therefore the reduced labour-time of the one or two advanced capitalists becomes general and the average socially necessary labour-time falls and with it the market value. In this way the extra surplus value will be lost and with it the higher rate of surplus value, unless the value of labour-power also falls. However, it is more than probable that the improved methods of production will directly or indirectly reduce the value of the workers' necessaries of life and therefore reduce the value of labour-power. If this happens, the paid portion of the working-day will be reduced and the surplus increased for the capitalist class as a whole, and there will be a relative increase

in surplus value. The rate of exploitation in modern capitalism is in fact continually increasing in this way; for example, during the boom in U.S.A. in the 1920s when wages were rising fast, profits rose even more rapidly and the rate of surplus value as indicated by Census of Production figures (the true rate was higher) rose from 106 per cent in 1921 to 152 per cent in 1929.

The way in which increased productivity increases the rate of surplus value is illustrated from the cement industry in Britain to which reference has already been made in Chapter IV (p. 56). Using Dr. Rostas' figures as a basis, we may make the following comparison which shows how the rate of exploitation increased between 1924 and 1935.

Cement: Costs and Surplus per ton

	1924	*1935*
(1) Materials	21/-	12/-
(2) Depreciation of fixed capital ...	6/-	3/6
(3) Wages	8/-	4/-
(4) "Factory" selling price*	43/-	29/6
(5) Surplus	8/-	10/-
(6) Rate of surplus value [(5):(3)] ...	100%	250%

* Wholesale prices per ton were £3 in 1924 and £2 in 1935.

During this period of eleven years output per worker increased greatly—from 370 tons a year in 1924 to 783 tons in 1935. The industry was "rationalised" and technically developed (horse-power per worker was even by 1930 more than double what it was in 1924). Despite the huge increase in output the weekly earnings of the workers hardly changed. (Average hours of work increased 4 per cent and average earnings per hour by 1 per cent.)

Total operatives employed fell from 12,450 in 1924 to 8,300 in 1935, but output increased from 3.2 million tons to 5.9 million tons. Applying the figures in the table above to the total output figures we get the following picture for the industry as a whole:

		£ million *1924*	*1935*	
Constant Capital used up in the year:	Fixed Capital	.96	1.03	Fixed Capital
	Materials	3.36	3.54	Circulating Capital
Variable Capital:	Wages	1.28	1.18	
	Surplus	1.28	2.95	
	Total	6.88	8.70	

These figures show that, whilst wages stayed much the same, the surplus was more than doubled as a result of the increased productivity. Dr. Rostas' analysis also shows how works with lower labour-time per ton output (usually the larger ones) got a bigger share of the surplus value than works in which labour-time per ton

output was above the average (usually the smaller firms). Output per head in eight establishments employing between eleven and forty-nine workers was 560 tons and "the gross margin" (the surplus plus depreciation on fixed capital) was 10s. 5d. a ton. Output per head in ten establishments employing between 200 and 750 workers was 731 tons and "the gross margin" was 14s. 7d. a ton.

Accumulation and Capitalist Competition

Whatever profits a capitalist may be making, he is always striving to make more. What is the reason? Capitalist greed? Yes, indeed; but it is not that capitalists *happen* to be greedy people. Greed and single-mindedness in the pursuit of profit are necessary conditions of survival in the capitalist jungle. The natural laws of capitalism tend to eliminate those who do not seek continuously to increase their wealth. In general only a portion of the surplus value will be consumed by the capitalist on the means of living; the balance is used to buttress him in his unceasing fight against his rivals. This balance he turns into new capital which in its turn will enable him to appropriate additional surplus value. This process of turning surplus value into new capital is called *accumulation*. Accumulation is a necessary law of capitalist production.

Surplus value which is turned into capital may be used in a number of different ways. It may be directly "put back into the business" and used to expand the scale of production to support additional wages and material costs involved in the expansion of production or to buy new plant. One of the leading firms in the cement industry, for example—the Associated Portland Cement Manufacturers—reinvested in plant £3.8 million out of the surplus produced between 1924 and 1935 and their capacity is estimated over this period to have increased from 1,280,000 tons a year to 2,240,000 tons a year. Accumulated surpluses may also be used to form money reserves which through the banks and the financial system generally will be loaned to other capitalists at an appropriate rate of interest (see Chapter VI, p. 56). Such funds, when the moment is opportune, may be taken back to finance new expansions in production under the direct control of the capitalist undertaking in which the surplus was produced. Alternatively, the accumulated surplus may be removed altogether from the undertaking in which it was produced and be invested far afield. The period of monopoly capitalism has, in particular, brought some changes in the forms of capital accumulation. All evidence suggests that the share of profits accumulated by monopoly concerns has tended to increase, but at the same time monopolies often put a brake on technical development, for example, to preserve, if they can, the value of their existing plant. Accordingly, in the period of monopoly capitalism in Britain, there has been a tendency for new capital to seek more profitable fields for investment overseas (particularly at the end of

the nineteenth and beginning of the twentieth century), and also to go into commercial and financial concerns which cater for a parasitic ruling class and their hangers-on, rather than to go to the development of the basic industries on which the industrial well-being of the country depends.

The Organic Composition of Capital

As technical methods improve it is clear that, in addition to the greater expenditure on machinery, etc., the amount of raw materials that each worker uses up in the course of his day's work greatly increases. Consequently (even though the relative value of raw materials, etc., may fall), in the course of time wages tend, as capitalism develops, to form a smaller part of the capitalist's outlay —that is, the ratio of variable to constant capital becomes smaller. Of course, conditions in separate industries differ greatly but under the pressure of capitalist competition and accumulation the over-all tendency inevitably is for the amount of constant capital in capitalism as a whole to increase relative to variable capital. This ratio, constant-variable capital (c/v) is described as the *organic composition of capital*, and the smaller variable capital (wages) is in relation to constant capital (machinery and raw materials, etc.), the *higher* is the organic composition said to be. (The effects of the tendency for the organic composition to rise on the development of capitalism as a whole are more fully dealt with in Chapter VIII.)

The Concentration and Centralisation of Capitalism

Closely allied to the technical developments in methods of production which are instigated by competition between capitalists is the tendency for the capital used in production to be concentrated in larger and larger amounts.

On the one hand the technically most advanced firms will tend to make the greatest profits and the funds available to them for accumulation will tend accordingly to be the greatest. On the other hand, the larger firms will be in the best position to adopt new methods of production requiring highly specialised and costly machinery, large-scale organisation, etc., and also to raise funds for expansion. There will therefore be a tendency for the larger productive units to get larger still. In some branches of industry (such as steel towards the end of the nineteenth century or artificial silk in the twentieth century) it will be hopeless for capital below a certain size to compete. The small capitalists will be crushed out, or must find means of operating in branches of industry where small-scale production is better able to carry on. In such industries, however, they will face the competition of a host of other small capitalists in the same predicament as themselves and will confront the ever-present danger that large-scale production may succeed in invading their territory. In times of economic crises a host of small capitalists will be bankrupted or forced to sell out to larger capitalists. Thus, in addition to the enlargement of individual capitals out of their own

accumulated profits, etc. (the *concentration* of capital), individual capitals again and again lose their independence and are brought under centralised control (the *centralisation* of capital); capitalist, says Marx, expropriates capitalist.

The development of banking and credit will further speed both the concentration and centralisation of capital. Thus the capitalist mode of production necessarily leads to the development of larger and larger capitals. (The consequences of this important law of capitalist development are dealt with in Chapter IX, on Imperialism.)

Social Consequences of Capitalist Accumulation

Capital never stands still. It either marches forward extending its power, growing richer, replacing old plant and equipment with new, acquiring new undertakings and new markets, or else it is crushed or absorbed by rivals who have fared better in the ruthless and ceaseless competition between capitalist and capitalist. The small capitalists are in this way continually being broken and driven out of business, and the influence and wealth (particularly the share in ownership and control of the means of production) of the big capitalists increase at their expense.

The small capitalists are not, however, wiped out of existence. Periodically their numbers may actually increase as new capitalists set up in business, but the share of production in the hands of the small capitalists tends to decrease, their weight and say in economic affairs become less; they are more and more at the mercy of the big capitalists.* At the same time, small non-capitalist traders and " business men " such as craftsmen working on their own, peasant-farmers (not in Britain but in colonial countries and in Europe in great numbers), small shopkeepers, " one-man firms " continue in existence; but as big capital becomes more powerful their lot becomes more wretched and uncertain and the difficulties of standing up to rich and large-scale undertakings become insurmountable. Every year—and more particularly in times of crisis—many of their number either join the ranks of the wage-workers or become " down and outs ".

What are the fortunes of the workers as the mass and power of capital increases? " It is questionable", said John Stuart Mill in his *Principles of Political Economy*, " if all the mechanical inventions yet made have lightened the day's toil of any human being ". Mill said that a hundred years ago; however, it is still questionable, at least if we add Marx's qualification that Mill should have excluded the well-to-do idlers whose number machinery has greatly increased. Marx comments that the aim of capitalist application of machinery is not to lighten human toil. " Like every other increase in productiveness of labour, machinery is intended to cheapen commodities, and, by shortening that portion of the working day

* Small firms tend to become more and more dependent on sub-contracts from large firms, and so to be put at their mercy.

in which the labourer works for himself, to lengthen the other portion that he gives, without an equivalent, to the capitalist. In short, it is a means for producing surplus value." (*Capital,* Vol. I, pp. 365-6.)

The measurement and comparison of standards of life at widely separated times is not an easy matter; but certain broad tendencies are clear. Even in the era of capitalism's greatest prosperity in the nineteenth century, the numbers of workers seeking jobs always exceeded the number of jobs available. From the middle to the end of the nineteenth century unemployment, now rising, now falling, averaged about 5 per cent of those seeking work. In England the position of the working class was exceptionally favourable in comparison with other European countries (the fruit of trade-union organisation and of England's industrial supremacy in the nineteenth century); but though real wages probably rose by 50 per cent in the latter half of the nineteenth century, output per worker increased by at least 100 per cent. The relative position of the workers therefore deteriorated considerably.

The progress of capitalist accumulation inevitably swells the industrial reserve army of unemployed labour. As the total social capital is increased, the organic composition of capital rises and the investment in the form of wages (variable capital) decreases relatively. This tendency may be illustrated with figures taken from the U.S. Census of Production; the total annual turnover of capital (including only the " used up " portion of fixed capital) increased from 8.8 billion dollars in 1899 to 18.9 billion dollars in 1914—an increase of 115 per cent. The variable part of this capital (wages) increased from 2.0 to 4.1 billion dollars over the same period—an increase of only 105 per cent.

Growth in the working population coupled with the forcing of new recruits into the ranks of the proletariat as capitalism invades the territory of non-capitalist production (including, in particular, that of craftsmen and peasant-producers) brings a more rapid increase in the numbers of the " propertyless " seeking jobs than the number of jobs created by the expansion of capitalist production. Thus capitalism creates an army of unemployed, what Marx termed the industrial reserve army. This reservoir of unemployed creates the illusion of over-population; it seems that there are more men than can be provided for from available economic resources. In fact, however, it is not the case that the physical resources are insufficient, but simply that under capitalist conditions of production and property ownership the numbers of those who can live only by selling their power to work necessarily tend more and more to exceed the numbers that capitalism will employ. " The greater the social wealth ", writes Marx, " the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army. . . . The greater this reserve

army in proportion to the active labour army, the greater is the mass of a consolidated surplus population, whose misery is in inverse ratio to its torment of labour. The more extensive, finally, the lazarus-layers of the working class, and the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation.* . . . Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole, i.e. on the side of the class that produces its own product in the form of capital." (*Capital*, Vol. I, pp. 659–61.)

For the capitalist the " reserve army " of unemployed seems a heaven-sent blessing. In times of prosperity it provides for him the additional workers he requires; in times of depression it enables him, because of the ever-present threat of unemployment that faces the worker, to cut wages and so, he hopes, to recoup his dwindling profits.

However, all is not as it seems. The capitalist method of production is caught in a contradiction from which it cannot escape. Each capitalist strives to increase his profits and in doing so strives to cut the worker's share in the values he produces. He strives to increase output and at the same time reduce " his labour costs ". Capitalism grows and expands; it subjects to itself an ever greater part of the world. In the end everywhere the very masses whom it exploits to gain its profits have become the main market to whom it seeks to sell its products. Each capitalist wishes his own workers poor so that his profits may be high, and the rest of the world rich so that they may buy his products. He is caught in an insoluble contradiction—the basic capitalist contradiction between production and consumption—a contradiction which brings in its train crisis and war and poverty.

The impoverishment of the masses, however, brings its own vengeance. The workers whom capitalism has brought together in the great factories and towns that it creates, stand together in unity and learn, as the laws of capitalism work themselves out, that they must destroy capitalism or themselves be destroyed.

Thus it is that capitalism is unable to reach a state of economic or social stability and plunges in every country from one round of economic and political crises and wars to the next. All the machines and modern means of production whilst they remain in capitalist ownership do not lighten man's toil. They serve only to produce surplus value and the contradictions to which the production of surplus value gives rise. And so when all is reckoned in the account, not only what wages will buy, but also mass unemployment for years on end, the strained speed of modern production, colonial exploitation and poverty, and the repeated scourge of war, who would dare maintain that the worker's lot within capitalism is improving? Perhaps in this or that country, at this or that period for a decade or two, standards may rise for a few millions of

workers whose fortune it is to have work, whilst elsewhere thousands of millions of the human race, subject peoples, colonial workers and peasants, workers in sweated industries, dispossessed farmers and small traders, all the "lazarus-layers" in every land where the juggernaut of capital has passed, are sunk deep in poverty and degradation.

The words of Marx in his Inaugural Address to the first Workingmen's International Association (1864) still have a bitter truth for the workers of Western Europe. "In all countries of Europe it has now become a truth demonstrable to every unprejudiced mind, and only denied by those whose interest it is to hedge other people in a fool's paradise, that no improvement of machinery, no appliance of science to production, no contrivances of communication, no new colonies, no emigration, no opening of markets, no free trade, nor all these things put together, will do away with the miseries of the industrious masses; but that, on the present false base, every fresh development of the productive powers of labour must tend to deepen social contrasts and point social antagonisms." (M.S.W., Vol II, p. 437.) And what eighty years later was the prospect before capitalist society in Britain and Europe? To the daily misery of the masses capitalism had added two world wars and three periods of deep economic crisis within some thirty years; and for the future, even the "prosperous" workers of Britain, haunted by the shadow of a third world war, faced the certainty, as long as capitalism remained in power, of worsening standards of life. Who can deny that capitalism leads to the "accumulation of misery"?

CHAPTER VI

THE DISTRIBUTION OF SURPLUS VALUE

Prices of production and equalisation of the rate of profit—Commercial profit—Interest—Banks—" The Capitalist Trinity ".

"THE CAPITALIST ", says Marx, " who produces surplus value—i.e. who extracts unpaid labour directly from the labourers, and fixes it in commodities, is, indeed, the first appropriator, but by no means the ultimate owner, of this surplus value. He has to share it with capitalists, with landowners, etc., who fulfil other functions in the complex of social production. Surplus value, therefore, splits up into various parts. Its fragments fall to various categories of persons, and take various forms, independent the one of the other, such as profit, interest, merchants' profit, rent, etc." (*Capital*, Vol. I, p. 576.)

We may now consider the principal economic laws which determine how the total surplus value produced by the productive workers as a whole is divided out between capital in different branches of industry and between different kinds of capital, such as commercial capital and loan or bank capital.

The Rate of Profit and the Rate of Surplus Value

Capitalists do not talk about the " rate of surplus value ". Indeed, capitalists don't understand anything about surplus value because it is not in their interest to do so. Capitalists and the spokesmen of capitalism in the ranks of so-called " experts " and " best brains ", the people who sell capitalist ideas (" ideologists of capitalism ") are great hands at avoiding what is unpleasant, and to them surplus value is an unpleasant idea since it reveals the underlying reality of capitalism, namely, class exploitation or class struggle, and the basic contradiction of capitalist production which spells the ultimate defeat of capitalism and the class-power of the capitalists. However, the more superficial form of surplus value, that is profit, is, of course, something dear to the hearts of the capitalists. Profit to them is what capital produces, the reason for which they invest their capital, the motive of all their activities. Capitalists are not concerned with the ratio between the surplus they produce and the wages they pay (the " rate of surplus value ") but with the ratio between the surplus they get and the total capital employed. This ratio is the rate of profit and the *rate of profit may be defined as the ratio of surplus value (s) to total capital* [*which consists of constant capital (c) plus variable capital (v)*] whereas the rate of surplus value is the ratio of surplus value to variable capital: in short,

$$\text{Rate of profit} = \frac{s}{c + v}$$

$$\text{Rate of surplus value} = \frac{s}{v}$$

To the capitalist, what he spends on wages (variable capital) and what he spends on plant and raw materials (constant capital) appear equally to be costs of production, and the extra he gets by selling above costs is his profit.

That is how the matter appears to the capitalist, but what in fact determines the rate of profit? (1) *First, of course, the rate of profit depends on the rate of surplus value.* For example, a capitalist invests £1,000: £900 on raw materials, etc., and £100 on wages. If the rate of surplus value is 100 per cent, profit will be equal to wages, that is £100; if the rate of surplus value is increased to 150 per cent profit goes up accordingly to £150. The rate of profit is calculated *per annum* and if we assume that the figures given above represent capital invested in a turnover of production that takes a year, the capitalist's rate of profit will be 10 per cent when the rate of surplus value is 100 per cent and 15 per cent when it is 150 per cent.

Now suppose that the turnover of capital is speeded up and two cycles of production are completed in the course of the year, then (assuming 100 per cent rate of surplus value) he will get a profit of £100 twice in the year and make a profit of £200 on his capital of £1,000, which is a rate of profit of 20 per cent. (2) *In the second place, therefore, rate of profit depends on the speed of turnover of capital.*

There is a third important fact on which the rate of profit depends. Suppose that the rate of surplus value is 100 per cent and the capital turns over only once in the year, but that the capitalist lays out only £700 on raw materials, etc., and the remaining £300 on wages. If the rate of surplus value is 100 per cent, surplus value will equal wages (£300), and the capitalist will make £300 on £1,000, which is 30 per cent. *Therefore* (3), *the rate of profit depends on the ratio between variable and constant capital, what is called the organic composition of capital.*

Conclusion (3) at first sight seems strange. Can the capitalist increase his profit simply by spending more on wages and less on materials? It would be easy if he could do this as and when he pleased but, of course, in practice this is not so. The amount of raw materials, labour, and plant that he employs depends largely on technical considerations. If wages are low, the inducement to introduce costly machinery to increase productivity will not be strong. Much will depend on the prevailing social and economic conditions, but in general a capitalist who uses more than the average *socially necessary* labour-time will not get, in exchange, values corresponding to the labour-time that has been expended on his products. To survive a capitalist must, broadly speaking, use a competitive technique which is up to the social average. At all events he cannot arbitrarily determine the proportion of variable capital to constant capital and, if he tries to, it will get him nowhere if he fails to maintain output per man hour. It is no contradiction to this fact that, if wage-rates are low, it often will not be worthwhile to intro-

duce new machinery; but with wage-rates at a given level, the ratio between wages and other costs will be broadly fixed by technical considerations.

Changes are, of course, continually occurring in the organic compositions of individual capitals, and generally the process works on the following lines: the capitalist struggles to increase output and to this end introduces new techniques which lead to a reduction of wages in relation to other costs. Immediately he gets an extra profit because his improved methods reduce his factory's "labour-time per product" in relation to the social average labour-time which determines the market value of the product. However, as more advanced technical methods begin to be adopted generally, his advantages over other capitalists disappear and the rate of profit tends to fall, as a result of the higher organic composition of capital that has now become general. It should be noted that though the *rate* of profit tends to fall the total *amount* of profit does not necessarily tend to fall since the total amount of capital may and probably will increase. (The historical tendency for the rate of profit to fall will be dealt with further in Chapter VIII.)

Leaving aside, however, the over-all differences in the organic composition of capital at different points of time and the differences in the organic composition of individual capitals in the same industry, one needs to recognise that in different industries, for purely technical reasons, the *average* organic composition differs widely. Coal-mining, for example, does not involve working up a raw material purchased from another industry, but only the actual extraction of a raw material from the earth. Wages therefore necessarily form a large part of total costs; the organic composition of capital is relatively low. Does this then mean that the rate of profit in coal-mining is necessarily exceptionally high? This would indeed be a strange conclusion but what has been said above would suggest that this must be so. However, the facts are that the rate of profit in coal-mining was in the twenty years prior to nationalisation below the average rather than above.

The following table (based on the 1935 Census of Production) shows roughly—columns (2) and (3)—the size of the wages bill in relation to production costs in five industries:

Percentage Division of Value of Output

Industry	*Cost of Materials*	*Wages*	*"Gross Profits"**
(1)	(2)	(3)	(4)
Grain Milling	82	5	13
Seed Crushing ...	80	6½	13½
Linoleum	50	15	35
Chemicals, Dyestuffs, and Drugs	46	14	40
Coal-mines	15	62	23

* Including other production costs, e.g., executives' salaries, depreciation, repairs, advertising, rent and, in the case of coal-mines, royalties.

The table above shows differences in the materials: wages ratio which in the main are neither temporary nor accidental. Consider, for example, the 46:14 ratio in chemicals, as against the 15:62 ratio in coal-mining, and note that over-all "profits" in chemicals are three times the wages bill and in coal-mining half the wages bill. Clearly it is not the case that the industries with low organic composition of capital make exceptionally high profits and vice versa. It is necessary, therefore, for economic theory to explain how differences in the organic composition of capital affect the ability of different industries to make profits. Here we must disregard all the temporary fluctuations in general economic and market conditions (which have a great effect in the real world as depicted in current statistics) and look only for the underlying economic laws.

Equalisation of the Rate of Profit

Suppose that industry is divided into three branches, A, B, and C, and that the organic composition of capital in these three branches is as follows:

	Constant Capital	*Variable Capital*
A ...	80	20
B ...	70	30
C ...	60	40

Suppose that the rate of surplus value in all industry is 100 per cent and that the capitalists in each of these branches of industry sell their products at full value. Then the rates of profits earned will be as follows:

	Constant Capital	*Variable Capital*	*Surplus Value*	*Value of Products*	*Rate of Profit %*
A	80	20	20	120	20
B	70	30	30	130	30
C	60	40	40	140	40
Totals ...	210	90	90	390	30*

Suppose this actually did happen in the period of competitive capitalism. Suppose industry C earned 40 per cent. What then would happen? Capitalists always seek the most profitable investment for their capital and obviously they would rush to invest their capital in industry C, and would begin taking their capital out of industry A as quickly as they could. What then would happen? Clearly a lot more of industry C's goods would be produced and a lot fewer of industry A's. There would be over-production in one line and under-production in the other; a glut here and a scarcity there, and, as a consequence, products C would sell below value, and products A above value, which would mean that industry C would no longer

* Average rate of profit for all industry.

earn so high a rate of profit, whereas industry A would earn a higher rate of profit.

Such a tendency towards the equalisation of the rate of profit operates within capitalist production, shaping the broad distribution of capital between different industries, although in detail obscured by the differences in efficiency and the shifting fortunes that ceaselessly affect individual capitalists; *the tendency is for capital to be so distributed* between different branches of industry that all capitals earn an equal rate of profit, namely, the average rate of profit for capitalism as a whole* (in the example 30 per cent). This *equalisation of the rate of profit* is the result of the competition between capitals and the effect of supply and demand on the prices at which products actually sell. *The tendency is in fully developed capitalism for commodities to sell not necessarily at their values but at a price which equals cost (that is, broadly speaking, constant capital plus variable capital) plus the average rate of profit.* This price Marx calls *the price of production.* This may be illustrated by setting out the table given above in an expanded form, thus:

	Constant Capital (c)	*Variable Capital* (v)	*Surplus Value* (s)	*Average Rate of Profit* (p)	*Value of Products* (c+v+s)	*Price of Production* (c+v+p)	*Difference Between Price of Production and Value*
A ...	80	20	20	30%	120	130	+10
B ...	70	30	30	30%	130	130	0
C ...	60	40	40	30%	140	130	-10
Totals	210	90	90	30%	390	390	

Note well that total prices of production equal total values, *and that for industry as a whole* the average rate of profit depends directly on (i) the rate of surplus value and (ii) the organic composition of capital.

"Prices of Production" and the Critics of Marx

This "Prices of Production" law is one which the critics of Marx (who do not hold with Marx anyhow) find most upsetting, and they never cease to say so. It proves, say the critics of Marx, (*a*) that, after all, commodities in fully developed capitalism do not exchange at their values as determined by the labour-time embodied in them, and (*b*) that the prices at which they actually do exchange depend on demand and supply.

It is necessary to remind the critics that Marxist theory never said that commodities *always* exchange at their values, but only

* So far as there is free mobility of capital, which in the case of capital in agriculture there in fact is not, as will be explained in the next chapter. The free movement of capital in industry is also hampered in the period of monopoly capitalism.

that in and through numerous fluctuations up and down they *tended* to exchange at value. Now this statement that was broadly true of simple commodity production is modified in order to bring it into line with the conditions prevailing in fully developed capitalist production. Under such conditions commodities tend to exchange at value only on the assumption that capital of average organic composition is employed, and, to deal with production in which capital of other than average composition is employed, a new economic law is formulated which does not contradict but exemplifies a particular application of the law of value. This new law says that in *fully developed capitalism commodities tend to exchange at their prices of production.* It is important to note that the "prices of production" law depends on the law of value, and that it is only by applying the law of value to production as a whole that the average rate of profit can be determined; without the average rate of profit "prices of production" cannot be determined.

It is a strictly scientific method of work to modify general laws in order to apply them to particular circumstances. The natural scientist does this over and over again and in dealing with the latest stage of capitalism, namely, monopoly capitalism, it will be necessary to modify still further the "prices of production" law. And so the critics of Marx need not, after all, have been so upset; but perhaps they wanted really to upset others!

Consider now point (*b*). Some capitalist economists try to explain exchange-values solely in terms of supply and demand. Is not the line of argument here a surrender to their point of view? Not at all; here certain deviations of prices from values are explained in terms of supply and demand. To bring in supply and demand in this way is quite correct; but the point is, one gets lost and starts "chasing one's own tail" if an attempt is made to explain exchange-values *solely* in terms of supply and demand. "The exchange or sale of commodities at their value", writes Marx, "is the rational way, the natural law of their equilibrium. It must be the point of departure for the explanation of deviations from it, not vice versa, the deviations the basis on which this law is explained." (*Capital*, Vol. III, p. 221.) A little later he adds: "If demand and supply balance one another, they cease to explain anything, they do not affect market values, and therefore leave us even more in the dark than before concerning the reasons for the expression of the market value in just a certain sum of money and no other. . . ." (Ibid., 223.)

Commercial Profit

In Chapter IV it was explained that in capitalist societies surplus value (and therefore profit) does not originate from trading, buying and selling. It is indeed true that a particular capitalist often makes a profit by buying cheap and selling dear, but when he does so, it is at the expense of the capitalist from whom he buys, or to whom he

sells. The *source* of profit is not in exchange, nor in buying and selling; but although the *source* of profit is not to be found in buying and selling, it is of course an evident fact that the commercial capitalist, who merely buys and sells, nonetheless makes profits. How does he do so?

The point is to explain how the merchant continues to enrich himself from commerce within capitalist society. The merchant is, of course, much older than capitalist society. As has already been explained, in the ancient world of Greece and Rome and in medieval times, the merchant flourished wherever commodity exchange had developed to any substantial extent. Then the merchant (in addition to piracy and the use of force) enriched himself by buying cheap in one market and selling dear in some distant market. He traded with communities who depended on exchange only for a smaller number of goods, mainly luxuries. The merchant knew where there was scarcity and where there was plenty and guided his trade accordingly. He was the dominant figure in the field of commodity exchange, and merchants' capital was then the main form of capital. With the development of the capitalist mode of production, the position of the merchant alters radically. Merchants' capital becomes secondary to productive capital and the conditions which determine what profits the merchant gets are greatly changed. Here we need to consider these new conditions under which the merchant functions in a fully developed capitalist society.

The productive capitalist must, in order to realise the new values his workers have created for him, sell his products. If, for example, he is a manufacturer of boots he must sell his boots in order to get money to buy more leather, to pay his workers' wages and his overhead charges. If he cannot turn his products into money he cannot start a new turnover of production and his capital lies idle, giving him no profit until he has succeeded in selling his products. The sale of his products is therefore vital, and the more speedily this is effected the better it is for him.

The early capitalists were often (see Chapter II) merchants who had embarked on production in order to expand their supplies of commodities for sale. At this stage the merchant and producer are usually one, but as capitalist production develops the several activities which the production and exchange of commodities involve become specialised. Productive capital becomes more important than merchants' capital and the productive capitalist gives first attention to the use of his capital in the productive process. At this stage it becomes worth his while to sell below value to a merchant. In this way he will get his money back quickly and this will speed the turnover of his capital. The merchant on the other hand will establish contacts in all likely markets and see that the value of commodities is realised by sale as soon as possible. Throughout the epoch of capitalism the task of selling commodities tends to be handled by capitalists who specialise in this activity until the present

stage of vast monopolies and trusts is reached and a further change occurs, in that the trusts are often able, because of the huge scale on which they operate, to increase their profits by undertaking their own marketing.

The commercial or merchant capitalist must obviously have capital with which to operate. He needs this not only to enable him to buy the goods that are offered to him, but also to pay for the handling of the goods and for the costs of book-keeping, offices, sales assistants, etc. On the capital he uses he will, of course, expect to get the average rate of profit. If merchant capitalists do not get the average rate of profit they will begin to seek more profitable investments elsewhere.

The commercial capitalist is, then, a specialist in buying and selling, to whom the productive capitalist surrenders a part of the surplus values produced in the factory in order that the last stage in the turnover of his capital may be achieved and his profits realised accordingly. The values surrendered by the productive capitalists must be sufficient to enable the commercial capitalists to earn the average rate of profit, or else capital will be removed from commerce into industry.

Wages of Commercial and Distributive Workers

Since a commercial undertaking produces nothing, it creates no values, and all its profits and the wages, etc., of its employees come out of the surplus value produced by the workers directly engaged in production. All the values distributed derive from the point of production in the factory; but, of course, the commercial capitalist will see that the wages paid to his clerical and distributive workers are as low as possible, so that as much as possible of the surplus value represented by the difference between the "factory-gate" price and the final selling price may come to him as profits.

It is clear then that capitalists do all they can to cut down the wages paid to those whom they employ on realising the values which are produced in industry. Nevertheless capitalism wastes a vast amount of manpower in "socially unnecessary" sales organisations (including, of course, advertising) and commercial transactions designed to push individual products at the expense of some one else or to secure a middleman's "rake-off". Difficulty in selling is normal under capitalism; this (for reasons explained in Chapter VIII) is due to the restricted purchasing power of the masses in relation to the vast productive capacity which capitalism develops. This lack of markets, to which the productive relations and class contradictions within capitalism give rise, causes a tremendous waste of resources by capitalists engaged in an endless fight with one another to capture and hold markets.

The Co-operative Movement

A century ago, in order to escape from the excessive prices and adulterated products which the capitalist retailers had forced on

them in the industrial areas of Manchester, the workers started their own "Co-operative" shops. From small beginnings the Co-operative movement has grown into a vast organisation of retail shops, handling about one-eighth of the nation's retail trade. Through this organisation (although it is influenced by capitalist ideas and by the capitalist relations in production that prevail in society generally) the workers recover for themselves a small part of the surplus value which they produce and which otherwise would be appropriated by the merchant capitalists. The Co-operative movement, starting in the sphere of retail trade, has spread into the field of wholesale trade where the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society operate in a fairly big way; they have moreover spread their activities, on a much more restricted scale, to the field of production. Within a capitalist society Co-operatives, whether in trade or production, cannot and do not change the basis of capitalist exploitation. However, they provide a powerful organisation embracing the mass of the working-class and lower middle-class consumers through which economically and politically the struggle against monopoly capitalism can be conducted, a struggle which necessarily finds reflection in the internal conflicts within the Co-operative movement between those who seek to accommodate their activities to capitalist society and those who seek to unite the struggle for Co-operative aims with the struggle for the overthrow of capitalism as a whole and the building of a Socialist society.

Interest

In any form of society in which commodity exchange has developed to any considerable extent, money brings power for those who have it over those who lack it. In pre-capitalist societies, such as feudal and ancient society, the exaction of interest on loans (usury) is commonly to be found. " The most characteristic forms ", writes Marx, " in which usurers' capital exists in times antedating capitalist production are two. I say purposely characteristic forms. The same forms repeat themselves on the basis of capitalist production, but as more subordinate forms. These two forms are, first, usury by lending money to extravagant persons of the higher classes, particularly landowners; secondly, usury by lending money to the small producer who is in possession of his own means of employment." (*Capital*, Vol. III, p. 697.) These pre-capitalist forms of " usurers' capital " of course continue to play an important role in the modern world, particularly in countries in which capitalist production has developed only to a limited extent (such as India, China, Eastern Europe pre-war, Russia pre-1917). In capitalism, however, loan capital and interest assume a new status. No longer is interest branded (as it was, for example, by the moralists of feudal times) as an unjust exaction; instead, the capitalist moralists and economists see interest as a just and necessary part of the eternal order

of things. The reason for this change is to be found in the changed relations of men to one another in production and in the fact that capitalism provides a basis which makes it possible for interest-bearing capital to enjoy a more continuous existence. Usury in its modern form (the ugly word is no longer used) accords with the interests of the dominant capitalist class, since the capitalist who borrows money can use it to produce surplus value out of which the interest on the borrowed money can be paid to the mutual advantage of both the borrower and the lender. Interest-bearing capital is thus an integral part of the capitalist system; indeed, it is the most typical form of capital, money which generates more money all by itself! Such anyhow is the appearance, for in the case of interest the reality of exploitation which generates the extra money is hidden far from sight.

Interest is Payment for the Use of Money Capital

Suppose that a capitalist actively engaged in industry or commerce earns on his capital the average rate of profit, say 20 per cent; and, let us suppose that he borrows £100 to extend the scale of his business. " If this man (i.e. our ' active ' capitalist) should pay, say, £5 at the close of the year to the owner of the £100, out of the produced profit, he would be paying for the use-value of the £100, the use-value of its function as capital, the function of producing £20 of profit. The part of the profit that he pays to the owner is called interest. It is merely another name, a special term, for a certain part of the profit which capital in the process of its function has to give up to its owner, instead of keeping it in its own pockets." (Marx, *Capital,* Vol. III, p. 398.)

Interest-bearing capital (unlike commercial capital) does not therefore enter into the formation of the average rate of profit, which depends on the relation between the total amount of surplus value and the total social capital. Whether a particular bit of capital in an industrial or commercial undertaking is owned by the " working " capitalist or by some one who has made him a loan does not affect the total of social capital. If the capital is loaned, the only difference is that two persons have different titles to the same capital and the profit produced by it. The " owning " capitalist is entitled to a specified rate of interest; the " active " capitalist to such profit as the capital makes over and above the rate of interest. It is worth here noting that in the modern limited liability company the various forms of shareholding (referred to in Chapter X) provide a range of intermediary forms of " legal title " to a share in the profit, which lie between interest proper on loans and debentures and the " working " capialist's profit. Interest in its most typical form is a payment for capital in money form.

What determines the rate of interest? To this question there is no clear-cut and simple answer. Obviously, in normal times, the rate of interest must be less than the average rate of profit or it

would not be worthwhile for the " active " capitalists to borrow, but even this generalisation may not have been true in certain periods of crisis when payments were due and capitalists who were unable to sell the goods they had produced were exceptionally eager to come by capital in its money form. However, broadly speaking, one may say (1) that the rate of interest will bear some relation to the average rate of profit, and (2) that the relation of the rate of interest to the average rate of profit will depend upon the demand by " active " capitalists for extra capital and the supply of capital to lend by owners of capital who do not wish to use it " actively " themselves. In a fully developed capitalist society supplies of money capital come, in the main, from the banks, whose policy can to a certain degree control the amount of money available to borrowers. In the period of the general crisis of capitalism, interest rates are greatly affected by Government action in the sphere of finance, by new Government borrowing, and by the accumulation of National Debt.

It must be added that the particular rate of interest charged to a particular borrower will vary from the general rate of interest according to the length of time for which he wishes to borrow, the security for repayment that he can afford, the risk, and so forth. Indeed, here is a whole hierarchy of interest rates geared to the famous " bank rate ".*

Capitalist Theories of Interest and Profit

The bourgeois economist, as one would expect, takes the superficial appearance of things and treats it as the fundamental economic reality. The standpoint of bourgeois economics is, therefore, in many respects the reverse of what has been set out here. Interest is what capital " earns ", just as wages is what labour earns (and likewise rent is what land " earns "). According to bourgeois theory the three " factors of production ", capital, labour, and land, divide out the product of industry in such a way that each gets such share as supply and demand conditions enable it to command; which, indeed, says little more than that each "factor of production " gets what it gets. However, the importance to capitalism of putting things this way is that it disguises the reality of capitalist exploitation and suggests that capital has every bit as sound a claim to interest as labour has to wages. On this theory profit is but a special form of interest, and interest the fundamental thing, the payment due to capital.

F. H. Knight, an American economist who commands considerable respect in capitalist circles, argues in his book *Risk, Uncertainty, and Profit* that profit (as distinct from interest which is the " normal " reward of capital) is the reward for unforeseeable, unin-

* The Bank Rate is the officially advertised rate at which the Bank of England will discount short-term bills for members of the money market. Other rates of interest, above or below it, tend to change in step with it; but the Bank and the Treasury also influence interest rates by controlling the *amount* of money available to the money market.

surable uncertainty and he seems to suggest that on balance the capitalist class probably makes more losses than profits! In short, the capitalist class does not make profits; capital simply " earns " interest. The bourgeois economist also argues that a part of what the worker normally considers to be profits is properly a reward for managerial enterprise which the capitalist earns by virtue of his skill in this art. (By contrast our contention is that many salaries paid to capitalist directors far exceed the wages which they might have earned for managerial duties and are in fact disguised forms of surplus value.) Thus the bourgeois economists explain away the surplus value that is paid out to various classes of capitalist and are left with interest as " the reward of capital ".

For what service is interest a reward? " For the use of capital ", replies the capitalist economist. The fact that it is the capitalist himself who normally uses capital does not worry the bourgeois economist. Interest, he says, is a reward to the capitalist because he does not straightaway consume the values of which he is the owner, but instead abstains and puts them at the disposal of the community in order that they may be used to facilitate more lengthy processes of production which result in the community getting (after waiting all this while) a greater volume of production. The capitalist holds back from immediate consumption and uses his capital to feed the masses (to whom he pays wages whilst the lengthy productive process proceeds) and is rewarded with interest. The picture of a millionaire capitalist abstaining from immediate consumption of his vast fortune is, of course, ludicrous and the only truth behind this theory is that it reflects the fact that the capitalist as owner of capital and of the means of production can hold up the community to ransom and extract great wealth for himself from the toil of the masses. However, this idea is much more clearly and precisely expressed in the Marxist doctrine of surplus value, which provides an effective instrument for carrying out a full analysis of the economic structure of society. On the other hand, the bourgeois theory of interest has proved sterile and has only served to hide the real difficulties and problems that confront capitalism.

Banks

The final stage in the capitalist cycle of production is achieved with the sale of the commodity produced (C—M) which enables the capitalist to recover the capital which has temporarily been embodied in commodities and to realise the surplus value which has been produced. In developed capitalist society payment is normally made by cheque through the banking system. The banks in this way collect for the capitalists the revenue that comes to them from the sale of their commodities. They also hold for them that part of their capital which is for the time being in money form. These funds which the banks hold are the deposits credited to the accounts of their business customers. Thus one of the main func-

tions of the banks is to hold the money capital and surplus value realised in the course of the turnover of capital. Another main function of the banks used to be to issue the notes which serve as currency for cash payments. (The issue of notes is in Britain now restricted mainly to the Bank of England, and the total amount of notes which may be issued is provided for by legislation. The note always represented in " normal " capitalist conditions a definite weight of gold for which it could be exchanged and the number of notes issued bore a definite relationship laid down by statute to the amount of gold held by the Bank of England. Since "going off the gold standard"—originally in the First World War and again in 1931, after a partial return in 1925—no fixed relationship between notes and gold has existed.) A third main function of the banks is to lend capital in money form.

The earliest bankers were goldsmiths who held funds in safe keeping for merchants and other wealthy persons. The origin of the note was the receipt promising to repay the gold deposited with the goldsmith, which naturally came to be used in place of the gold in making payments. The early " goldsmith-bankers " also were a usual source from which those in need of money capital sought loans. Thus the three main functions of the bank date back to earliest times. What, however, is new about the banks in fully developed industrial capitalism is the fact that in their hands are concentrated virtually all the monetary transactions of capitalist society. They collect funds, they lend funds, they settle payments, and they serve as a clearing house for all industry's transactions.

Banks, therefore, bring together as it were all surplus funds available for use as capital, and make it available (against interest payment) for use as capital by industry and commerce. With the development of the banking system loan capital assumes, says Marx, " more and more the character of an organised mass " under the control of the bankers. On the one hand the bankers hold deposits (idle capital deposited with them); on the other, they issue loans to capitalists. And a very profitable business this is, since they use money left in their keeping to make money for themselves. The chief function of the bank's own capital is to inspire confidence in customers; what they lend is other people's money. However, the bigger the business a bank does, the greater the confidence it inspires. Thus the bigger a bank gets the easier it is for it to grow still bigger and as its custom grows bigger, so its profits grow bigger.

A simplified example will show how banks organise the distribution of loan capital and make big profits for themselves. Numerous capitalists deposit their idle funds with, say, Bank X (the size of the funds themselves may depend largely on the policy pursued by the banks). This they may do by the mere process of paying their receipts into the accounts they run at Bank X. Suppose that these deposits come in all to £200 million; Bank X will pay a low rate of interest on many of these deposits, say, £1 million in all, that

is on an average ½ per cent. Now Bank X will know that not all its depositors will want their money back at the same time and will lend this £200 million to other capitalists, in some cases on a short-term basis so that it can get the money back quickly if necessary, and in some cases for a longer term. In practice most banks keep about 10 per cent in cash (in hand and at the Bank of England) and lend up to about 90 per cent of the total sums deposited with them. The rate of interest that Bank X receives will be considerably more on the average than it pays its depositors. Supposing it gets on the average 3 per cent on the £200 million it has to lend, it will collect £6 million, whereas it pays out to its depositors only £1 million. It has not only organised and distributed the loan capital available to the capitalist class, it has also pocketed £5 million for itself. So the banks and countless other commercial and financial institutions suck up large amounts of surplus value created by the efforts of the workers.*

Rent, Interest, and Profit—the Capitalist Trinity

Part of the surplus value produced by the workers also goes to the landowning class as rent, in a manner which is explained in the next chapter. Rent, Interest, and Profit—the "Holy Trinity of Capitalism"—are the main forms in which surplus value is distributed to the exploiting class. Thus the working class carries on its back a vast and intricate structure of profiteers demanding surplus value as a first charge on every form of economic activity. Although the incomes of the capitalist class and its hangers-on are disguised in a multiplicity of forms, at bottom all these many forms, as the genius of Marx was able to make clear, are part of a single structure of surplus value weighing down upon the backs of the working class. (The amount of Britain's national income taken as surplus value at the present day in capitalism is dealt with in Chapter X.)

* This description of the activities of the banks is, necessarily, rather simplified, not to say over-simplified. In particular, it has not been possible within the compass of a text-book such as this to describe the far-reaching changes that have taken place in the monetary and financial system of capitalism within the period of its general crisis, that is, since the First World War. These changes would need to be dealt with in some detail in order to explain how the total of funds at the disposal of the banks is determined, the extent to which the banks are able to "create" credit, how they control the distribution of credit and financial resources generally, and how their activities affect the value of money. Here it must suffice to list some of the new factors that have an important bearing on the activities of the banks, as follows: the highly concentrated monopoly power of the greatest financial interests, the interwining of their activities with those of the State, the inconvertibility of currencies (into gold) and State regulation of foreign exchange transactions, the huge and growing proportion of "capital assets" held in the form of Government securities (the "National Debt"), the vast scale on which the State itself borrows, spends and receives money in the form of taxation.

CHAPTER VII

RENT AND CAPITALISM IN AGRICULTURE

Small peasants and semi-feudal forms of land tenure—Rent paid to landowners out of surplus value—Absolute and differential rent result from monopoly in ownership and use of land respectively—Differential rent due to differences in fertility and location—Landowners' monopoly as cause of backwardness of agriculture.

GROUND rent is a toll exacted by the owners of the land from those who use it; it is almost as old as private property in land, and at different stages in the development of human society has assumed a considerable variety of forms. In capitalist society rent is normally paid in money and comes out of the surplus value produced by the workers.

The roots of rent reach back far into the past. The landowning class is the relic of what before capitalism was the dominant ruling class. In Britain, the most capitalist of capitalist countries, the landowners have become almost completely merged with the capitalist class, but in the world as a whole, and not least in the British Empire, old pre-capitalist forms of landownership and exploitation still have a great importance.

Agriculture is an essential basis of social life. From farming and the cultivation of the land come man's food and materials from which other necessities of life are made. The vast majority of the world's population live and work on the land. Whereas the industrial population of the "advanced" capitalist countries such as Britain and the U.S.A. is counted in tens of millions, the peasantry of China and India is counted in hundreds of millions. In India, three-quarters of the population depend for their living on agriculture or pastoral pursuits. In Eastern Europe the position was before the Second World War much the same (for example, Rumania 78 per cent, Yugoslavia 71 per cent, Poland 63 per cent); it is, however, now rapidly changing. Likewise in South America, Africa, the Near East, and in all the colonial territories of the world, the masses of the people live upon the land, oppressed by ancient forms of exploitation on to which the yoke of capitalist imperialism has been superimposed.

In the first dawn of human history man lived by hunting and gathering the foods that grew wild. No one "owned" the land and no one exacted rent for the use of the land. The several tribes claimed certain territories as their hunting grounds (and, when necessary, defended their claims in battle), but it would be stretching words to say that they "owned" such territories. Private ownership in land did not develop until the cultivation of the soil and the raising and tending of cattle had developed; even then, the concept of tribal ownership for long tended to be dominant, private owner-

ship of land, as we today understand it, only appearing where commodity production and exchange had developed to some considerable extent. Even when the division of society into exploiting and exploited classes (see Chapter I) had become firmly established, the ruling kings or priests (as in Egypt) justified their exactions by claiming that the right to dispense and control the property of the tribe or community of tribes was vested in them as custodians of the communal or tribal interests (often symbolised by the tribal god). In feudal society the rights of the feudal lords were but an extension and development of the rights of the tribal chieftain; the feudal lord claimed to represent the community of his subjects. However, these claims and so-called rights of the exploiters over the exploited had become the opposite of that from which they had originated, the rights of the community had been turned into the rights of a privileged class used against the community, and once established, the privileged exploiting classes used their power and all the religious and legal trappings in which they dressed their power to appropriate wealth produced by the impoverished peasants or serfs who worked the land.

The tenure of land in feudal times is, therefore, radically different from the primitive tribal conditions of land tenure, but at the same time property in land in the form that developed under the influence of capitalist conditions had not yet made its appearance. Under feudal conditions land was not originally saleable. The conditions of land tenure reflected the relationship between lord and serf. The basis of the feudal lord's power was the land over which he was lord and those who lived on this land. Custom, force, and personal control of the courts of law ensured to the lord labour and dues from those who were subject to his rule; the serfs on his land could not leave the land or dispose of their rights in it, they had to seek his permission to marry, and were in other ways subject to his control. On the serfs who worked for him depended the power and circumstances of the lord; on the other hand, those who lived on the land established for themselves by custom and struggle certain accepted rights as regards tenure of their farms, use of common land and so forth. There was in all this still a considerable gulf between, on the one hand, " the rights " of the feudal lord and his subject and, on the other, the capitalist idea of property rights.

Today the world is littered and encumbered with the relics of ancient forms of exploitation. In India the zemindars, who in the times before British rule had been the collectors of taxes paid by the cultivators of the communally owned land to their kings or rulers, were turned by the British conquerors into landlords and at the same time compelled to pay over a substantial share of their revenues from the land to their new British masters. Between the zemindar and the peasant stretches a long chain of exploiters. " In some districts ", says the Simon Report (Vol. I, p. 340), " the subinfeudation has grown to astonishing proportions, as many as fifty

or more intermediary interests having been created between the zemindar at the top and the actual cultivator at the bottom." Thus the agricultural communities of India, still bearing the traces of tribal organisation, have had superimposed in historical sequence a series of later forms of exploitation. In Japan, the Philippines, Korea, and China before liberation, the peasants, unable to get a living elsewhere than on the land, are forced to pay over to the owners of the land all that they produce in excess of the barest essentials of life. Generally speaking, the rent to be paid is a percentage of the produce (which was in China and Korea about 60 per cent) paid in kind and sold by the landlord. In Iran the produce is divided into five equal parts in payment for land, water, tilling cattle, seed, and labour, which means that the well-to-do peasants who provide their own seed and cattle receive no more than three-fifths of their produce, whereas the poorest peasants must eke out an existence on one-fifth of their produce. In many colonial countries tribal ownership still continues.

The Development of Rent in Capitalist Society

How did rent in its modern, typically capitalist form develop? In feudal society, the serf made payment to his overlord by giving of his labour. Part of the week he worked his own land, the rest he worked for the landlord. The landlord received *labour rent*, that is the owner of the land exacted his toll by making the serf labour for him. A new form of rent develops when, instead of being forced to divide his working time between his own fields and those of his lord, the producer is made to divide his product, part going to the landowner and part being kept for himself. *Rent in kind* is then paid; a form of rent which no longer assumes a serf working under the eye and whip of his lord, but a producer who is at work his own master but is compelled by legal enactment to surrender a part of his produce. With the growth of commerce and commodity exchange, a further change in the form of rent develops. In place of rent in kind, the money equivalent, the price of his product, is paid over as rent. In short, *money rent* is paid. "The transformation of rent in kind into money rent", writes Marx, "taking place first sporadically, then on a more or less national scale, requires a considerable development of commerce, of city industries, of the production of commodities in general, and with them of the circulation of money." (*Capital*, Vol. III, p. 926.)

Marx further points out that the transformation of rent in kind into money rent is only possible when a more or less definite market price has become established for the serf's products. Such money rent (that is rent in kind converted into its money equivalent) is the last form of what one might call "feudal rent", that is a payment that represents the unpaid surplus labour that the serf is forced to give to his lord. However, once money rent has been introduced, it is a clear sign that the old feudal forms of exploita-

tion are being superseded by new forms. Labour rent was the normal form of exacting surplus value in feudal society; the replacement of labour rent and rent in kind by money rent shows that ground-rent is ceasing to be the prevailing and normal form for the appropriation of surplus value.

In Chapter III reference was made to the changes in feudal society which paved the way for capitalism. It will be remembered that with the development of trade, the desire of the feudal lords to have wealth in money form increased. This often led to conversion of feudal dues into money payments (although at times the feudal lords found that they stood to gain more by themselves selling the products received by the more direct forms of exploitation). The sale of estates to merchants and townsmen (who looked for revenues in money form) also developed as a result of the growth of trade and the desire of the feudal lords to lay their hands on money.

The development of money rent necessarily stimulates more fundamental transformations. " With the coming of money rent the traditional and customary relation between the landlord and the subject tillers of the soil . . . is turned into a pure money relation fixed by the rules of positive law. The cultivating possessor thus becomes virtually a mere tenant. This transformation serves on the one hand, provided that other general conditions of production permit such a thing, to expropriate gradually the old peasant possessors and to put in their place capitalist tenants. On the other hand it leads to a release of the old possessors from their tributary relation by buying themselves free from their landlord, so that they become independent farmers and free owners of the land tilled by them." (Marx, *Capital*, Vol. III, pp. 927-8.)

The dispossession of the smaller peasant farmers and the creation of a landless, propertyless class who, to live, must hire themselves for wages (to which reference has already been made in Chapter III) was an important symptom and also an important cause of the dissolution of feudal relations in the countryside. The driving of the peasant from the land is always accompanied by the emergence or forcible imposition of capitalist production relations and is important alike for the growth of capitalism in manufacture and in agriculture itself. In England the enclosure of the land in the fifteenth and subsequent centuries hastened the dispossession of the weaker peasantry; elsewhere usury has played a major role in the destruction of the small independent proprietor. Forced in years of bad harvest, or when prices slump in years of glut, to have recourse to the money-lender, the peasant falls into his grip and has in the end to sell his land. In colonial countries the usurer has ever been a cause of ruin, supplementing the direct use of legislation (as in Kenya) as a means to evict the peasant from his land. At the same time the small agricultural handicraftsman is ruined by the competition of capitalist products.

The advent of the trader and the money-lender and the creation of a propertyless class on the land, the rural proletariat, hastens the development of class differentiations within the peasantry. Whilst some are ruined, their employment as hands speeds the enrichment of the more well-to-do peasant farmers (such as the kulaks in Russia).

This process, which is repeated wherever capital invades the "natural economy" of backward semi-feudal countries, or of native farmers or pastoralists, began to take place in Britain some five centuries ago. Capital from the cities moved into agriculture; in sixteenth-century Britain this movement was given great impetus by the growing market for wool which attracted capital in sheep-raising. There arose thus new relationships in agricultural production, and rent acquired a new character, that of ground-rent within a capitalist mode of production. Describing this new stage, Marx writes: "When the capitalist tenant steps between the landlord and the actually working tiller of the soil, all conditions have been dissolved, which arose from the old rural mode of production. The capitalist tenant becomes the actual commander of these agricultural labourers and the actual exploiter of their surplus labour, whereas the landlord has any direct relations only with this capitalist tenant, the relation being a mere money relation fixed by contract. This transforms also the nature of the rent. . . . Instead of continuing as the normal form of surplus value and surplus labour, it becomes a mere surplus of this surplus labour over that portion of it which is appropriated by the exploiting capitalist in the form of profit." (*Capital,* Vol. III, p. 929.)

Rent as a Share of Surplus Value

We explained in the last chapter how in one industry the outlay of capital on raw materials, plant, etc., in relation to the outlay on wages will be considerably more or less than in another, and how in these circumstances commodities tend to exchange at their "price of production", and how the total values produced tend to be divided out so that each capitalist (assuming average technique, efficiency, etc.) receives for his products a price equal to capital used in the production period plus the *average rate of profit.* The average rate of profit determines how the total surplus value produced is divided out between the several capitals, that is it determines the division of the "unpaid labour". Where and how does *rent** come into this dividing out of the surplus value? Is it part of the average rate of profit as, for example, interest is? Is it, indeed, a part of the surplus value extracted by the capitalist? What is it, and where does it come from?

Rent is clearly unearned income. The landowner does no work, and he sells no labour-power; he receives his rent simply because

* By *rent* is meant ground-rent and not rent as it is commonly used covering both rent for the land—ground-rent—and payment for use of buildings on the land.

he is by legal title the owner of land. However, the money that the landowner receives for allowing some one else to have use of his land is just as good money as that which the capitalist receives when he makes a profit out of the worker; money paid in rent can buy the products of other men's labour just as well as any other money. The landowner is very obviously not a recipient of wages, and what comes to him as rent cannot come from anywhere else but out of the product of unpaid labour. It cannot be anything but *surplus value.*

Rent, then, is a part of the surplus value created in agriculture; moreover, it is something over and above the average rate of profit which the capitalist farmer, like all other capitalists, expects to get on the capital he employs. But how is it that the landowner is able to get something over and above the surplus value which provides the average rate of profit on the capital actually employed? It has already been shown how equal amounts of capital tend to earn equal amounts of profit. The rate of profit tends to be equalised according to the amount of capital engaged. This process of equalisation takes place because if capital employed in one branch of industry tends to earn more than capital employed in other branches of industry, more capital will be invested in the exceptionally profitable industry, as a result of which more goods will be produced and as supply increases relative to demand, prices will fall. This process will go on until this industry earns no more than the average rate of profit. Another way of describing this process is to say that the products of industries with high organic composition of capital will tend to sell above value and those with low organic composition will tend to sell below value.

Surplus value created in industries with capital of low organic composition flows away into industries of high organic composition. Agriculture is an industry of low organic composition. Is it therefore correct to say that surplus value created in agriculture tends to flow away and be distributed elsewhere in other industries? It has been shown above that this redistribution of surplus value and equalisation of the rate of profit takes place as a result of the " flow " of capital into industries which get more than the average surplus value. Is there any reason why extra capital should not go into agriculture and cause the surplus value produced there to be equalised out in the same way as it is for other industries of low organic composition? At first blush it would seem that additional capital can as well go into agriculture as into any industry; but in fact this is not so.

Agriculture is *cultivation of the land, and the land is privately owned. This private ownership of the land acts as a barrier* preventing the free flow of capital into agriculture, and preventing also the outflow of surplus value produced on the land. The " extra " surplus value which results from the low organic composition of capital in agriculture is not, therefore, distributed and " equalised " between

other branches of production. An example will show some of the differences. If one owns a shoe-factory and wishes to double the amount of capital invested, a second factory can be built identical to the first; no special problems will be involved. But if one is a farmer and wishes to double one's scale of operation, things will be different. The most obvious way of doubling the scale of operation would be to buy a second farm; but this would not in fact increase the industry—it would merely extend one man's farm at the expense of another farmer. In short, there is not a limitless supply of accessible and reasonably good land and therefore an expansion of the agricultural industry either involves bringing new poor land into cultivation or else a greater investment of capital and more intensive farming of land which is already under cultivation. But the free flow of capital into farming is hampered, not only because the area of cultivable land is limited, but also because conditions of land-tenure and ownership militate against new investments of capital in farming. For example, a farmer holding land under the typical short-term lease will after improving the land have part of the extra yield of the land sucked away as a result of an increase in rent. For this reason the farming community have long agitated for more certain conditions of tenure and for compensation for improvements on the termination of a lease.

The private ownership of land which prevents the easy inflow of capital into farming also hampers the free flow of surplus value from agriculture into other industries. This does not, of course, mean that farmers get unusually high profits. Any theory that led to such a conclusion would be nonsensical. The extra surplus value which does not flow away from agriculture, flows away, however, from the farmers' pockets. It goes into the pockets of the owners of the land, who can appropriate a part of the surplus value produced on the land by virtue of the fact that they own what land there is and can stipulate the terms on which it will be used. They have a monopoly which they exploit by appropriating a part of the surplus value produced on the land in the form of *rent*, and by raising the rent as and when the surplus value increases (either as a result of the farmer applying more capital, or of social developments or other causes raising the price of the product).

Adjusting the table used in Chapter VI to show how the distribution of surplus value is equalised, we may show how in the case of agriculture it is not equalised, as follows:—

				Surplus Value	
C	*V*	*Surplus Value*	*Value of Product*	*Capitalist Profit*	*Rent*
50	50	50	150	30	20

How is Rent Determined?

For simplicity's sake we assume here that the land is worked by a capitalist farmer who gets on his capital the same rate of profit

as any other capitalist. But in making this assumption we should not forget that in fact, even in Britain, which economically is farther removed from feudalism than any country in Europe, farming is a down-trodden small-scale industry crushed between the landowner on the one side and powerful industrial and commercial trusts on the other; these, in addition to the landowner, suck off a portion of the surplus value created by the agricultural workers, so that what is left to the capitalist farmer is often less than the average rate of profit.

Absolute Rent

Some pieces of land are more fertile than others, and some more accessible, and it is to be expected therefore that such land will command higher rent than the less fertile and the less accessible. First of all, however, it is necessary to leave aside the differences between the best and worst land and to ask whether all and any land, including the worst, commands a rent. Once asked, this question is easily answered. Clearly where there is private property in land the owner will not allow some one else to have the use of it for nothing. The very existence of a landowning class implies that the owners can determine how the land is used and will only relinquish the use of the land to any other person on their own terms.

If nothing but commercial considerations enter into the landowner's calculations, he will expect the appropriate normal rent. The basic minimum rent which must be paid for all land, even the worst, is called *absolute rent,* in contrast to the extra rent paid in respect of advantages in fertility or location which is called *differential rent* (see below).

The amount of rent that is paid for the use of any acre of land, even the worst land (namely, the *absolute* rent), depends ultimately on the availability of land and the demand for agricultural produce. In densely populated territories where there is little or no chance of the would-be farmer being able to satisfy his "land-hunger" from virgin land which is fertile but as yet untilled, the monopoly position of the landowning class will be strong and the amount of absolute rent exacted will be correspondingly greater. For example, the industrialisation of Britain which began in the latter half of the eighteenth century greatly increased the demand for agricultural products to feed the growing numbers of town workers, and the monopoly position of the landowners was to this extent strengthened. However, this monopoly was at the same time weakened by the development of virgin land in America. The fight to maintain import duties on corn, such as those imposed by the "Corn Laws" (which were repealed in 1846) was the last desperate attempt of the landowning class to maintain the full strength of its monopoly. In so far as the old feudal relationships had not completely disappeared in the countryside, and capitalism in agriculture

was still only developed to a limited extent (such conditions existed prior to the Second World War in Eastern Europe and still are to be found in colonial and semi-colonial territories), the amounts to be paid in rent derived in some measure from the payments made of old when the feudal dues paid by serfs to their lords were commuted into money payments. However, with the development of capitalism on the land (which began in England on a considerable scale as early as the sixteenth and seventeenth centuries) the influence of this historical or customary element in rentals, which dated from feudal times, became less and less significant and the absolute rent tended primarily to be determined by the demand for land in relation to the strength or otherwise of the landowners' monopoly.

The capitalists are aware that the landowners' monopoly baulks the development of productive forces in agriculture. In the hey-day of capitalism the more radical bourgeois economists (such as Henry George) advocated State ownership of the land. Such public ownership of the land would make possible the abolition of *absolute rent* and would stimulate improved and cheaper methods of growing food. In no country, however, did the capitalist class push to extremes a claim for public ownership of the land (though division of the land amongst the peasantry was effected by the French Revolution of 1789). In practice *no radical change in the ownership of the land has ever been effected except as the fruit of social revolution.* Therefore, despite " theoretical advantages ", capitalism is not prepared to strike at the ownership of the land; such a revolutionary measure as expropriation of the landowners is too much akin to the revolutionary claim put forward by the workers, that the capitalists themselves must surrender into public ownership the means of production that they own. The question of taking the land into public ownership tends, therefore, to be glossed over and the capitalists content themselves with merging their interests with those of the landowners by themselves acquiring a substantial share in the ownership of the land.

Differential Rent

Absolute rent is that basic rent which any piece of land commands regardless of the relative fertility or accessibility of the land On the worst land the rent paid will be absolute rent and nothing more. Moreover, it is on the worst land that the price of production of agricultural products will be determined, since the economies in production costs which derive solely from better location or higher fertility pass to the landowner as rent. This rent deriving from differing fertility, etc., is called *differential* rent.

It is not hard to see how the owner of the land is able to reap a *differential rent* in addition to an absolute rent. A farmer of normal efficiency will expect to receive approximately the average rate of profit on his capital. If he were fortunate enough to be able to rent

land of high fertility for the same rent as the worst land, he would clearly make considerably higher profits than the farmer farming the worst land. However, the landowner will know what his land is worth (by testing the market, if necessary), and the rent that he will be able to charge will be such as to put into his pocket any extra profits due to the fertility of the land; that is competition of the farmers will fix the rent at a level which will enable the farmer of average skill to earn the average rate of profit which the farmer on the worst land earns after paying the landowner only the *absolute rent*. Differential rent therefore goes to the landowner and the price of production (that is, costs plus average profit) is determined on the worst land.

One may illustrate the point in figures as follows (assuming that the average rate of profit earned generally by capital is 30 per cent —and that the farmer gets this average rate, and assuming that the area of land considered in each instance is the same): suppose the farmer on the worst land lays out £500 on constant capital; £500 on variable capital, wages; pays £100 in rent; and produces 140 units of produce. Assume that he will not continue in production unless he gets 30 per cent (£300) on his capital outlay of £1,000. Then, if this worst land is to be farmed at all, the produce of 140 units must yield £1,400, that is the price per unit of produce must be £10. Produce grown on the more fertile land will, of course, command the same price and for the lands of differing fertility matters will work out thus:

	Worst Land	*Medium Land*	*Good Land*
(1) Produce in units ...	140	160	180
(2) Value of produce at £10 per unit	£1,400	£1,600	£1,800
Costs			
(3) Constant Capital ...	£500	£500	£500
(4) Variable Capital ...	£500	£500	£500
(5) 30 per cent Profit on Capital	£300	£300	£300
(6) Absolute Rent ...	£100	£100	£100
(7) Difference appropriated by landowner as Differential Rent ...	Nil	£200	£400

Marx uses as a means of illustrating how differential rent arises from monopoly ownership of natural advantages, the example of land on which a waterfall happens to be located. The owners, he writes, " may exclude others and prevent them from investing capital in the waterfalls. They can permit such a use or forbid it. . . . Therefore the surplus profit, which arises from this employment of waterfall, is not due to capital but to the harnessing of a natural power, which can be monopolised and has been monopolised. . . . Under these circumstances the surplus profit is transformed into ground-rent, that is, it falls into the hands of the owner of the

waterfall. . . . It is evident that this always is a differential rent, for it does not enter as a determining factor into the average price of production of commodities, but rather is based on it ". (*Capital*, Vol. III, p. 756.)

Differential rent may arise from advantages in location or advantages in fertility. Of course, these two factors may work against one another; the gains from extra fertility may be negatived by long distances for transport to market towns. Many other combinations of factors enter in, but for present purposes there is no need to examine all of them in detail. It is, however, important to note that the fruits of increased investments of capital in the land may be appropriated in part by the landowner in the form of differential rent. As has been explained already, the landowner will be able, on the termination of a lease, to increase the rents of land which has been improved (for example, drainage or use of fertilisers, etc.). Moreover, a part of any additional surplus value derived from a general increase in the amount of capital invested in the land goes in the end to the landowners. The appropriation in these ways of the fruits of improvements to the land and of more intensive cultivation acts as a check to investment and retards the development of agriculture.

Differential rent arises from monopoly in the *use* of land and must continue to exist so long as the mode of production is capitalist and the land is farmed by individual capitalist enterprises. If land is privately owned the landowner appropriates this differential rent, leaving the capitalist his average rate of profit. *Absolute rent*, on the other hand, arises from monopoly in the *ownership* of land. It exists so long only as there is private ownership in land. "Can we assume," writes Lenin, " that the landowner will permit the farmer to exploit the worst and most badly located land which only produces the average profit on capital, gratis? Of course not. Land ownership is a monopoly, and on the basis of this monopoly the landowner demands payment from the farmer for this land also. This payment will be *absolute rent*, which has no connection whatever with the difference in productivity of different investments of capital and which has *its genesis in the private ownership of land*. . . . We are actually dealing with a two-fold monopoly: in the first place, we have monopoly of enterprise (capitalist) on the land. This monopoly originates in the limitation of land, and is therefore inevitable in any capitalist society. *This* monopoly leads to the price of grain being determined by the conditions of production on the worst land; the surplus profit obtained by the investment of capital on better land, or by a more productive investment of capital, forms differential rent. This rent arises quite independently of private property in land, which simply enables the landowner to take it from the farmer. In the second place, we have the monopoly of private property in land. Neither logically nor historically is this monopoly inseparably linked with the previous monopoly. This kind of monopoly is not

essential for capitalist society and for the capitalist organisation of agriculture. . . . It is absolutely necessary to distinguish these two kinds of monopolies; and consequently it is also necessary to recognise that absolute rent which is *engendered* by private property in land exists side by side with differential rent." (L.S.W., Vol. XII, pp. 69-70.)

The Selling Price of Land

For political economy the key facts about land in modern capitalism are: (*a*) it is privately owned; (*b*) its area is limited; (*c*) it has, in the Marxist sense, no value (except in so far as labour has been put into it).

Land has no value since it is not the product of human labour. In so far as land has "socially necessary" labour-time expended upon its improvement, as on a drainage scheme, enrichment with fertilisers, fencing, hedging, clearing, etc., it contains a value in the true sense of the word. In effect, such improvements are no different from buildings built upon the land; their value derives from the "average socially necessary labour-time" required for their production. But the land, apart and distinct from improvements to or buildings on it, though in the strict sense it has no value, most certainly has a price, as frequent sales and purchases of land in capitalist society clearly demonstrate. The following example shows how the price of land is determined. A man who buys a title to land buys a property right which enables him to appropriate a definite amount of surplus value. Suppose that this is £100 a year. Then the owner of this title is similarly placed to a man who has lent a sum of money on which he receives £100 in interest. If the prevailing rate of interest is 5 per cent that sum of money is £2,000. It is therefore just as good to own the title to the land as to own £2,000. The price of the land is then simply the *capitalised rental* (that is the capital sum which would yield interest equal to the rental). From this it follows that if interest rates fall, the price of land goes up; in our example, if interest rates fall to 2½ per cent the value of the land will tend to rise to £4,000.

Effect of Capitalism on Agriculture

The first effect—first, that is, in point of time—of capitalism on agriculture was an increase in the yield of the land. The old three-field system (itself a great advance on the primitive methods of farming that had preceded it) was the typical method of farming in feudal times. The land which the feudal peasants tilled was divided out into three great "fields" in which each of the peasants held a number of strips of land about an acre each in area. The three great "fields" were tilled in rotation, one under wheat, say, one under oats, and one fallow. These traditional feudal methods of farming, enshrining in rigid custom the wisdom of earlier times, left no room for the application of new knowledge to the art of farming,

and gave little scope to improved methods of cattle-raising. Moreover, they cost a deal of energy to peasant-farmers who tended widely separated strips. The compact farms and the new property and productive relations which capitalism brought made possible the introduction of modern methods of farming and released new productive potentialities; this was the progressive element in the brutal process by which the common lands were enclosed and the fabric of feudal life was torn asunder, forcing the serf or feudal peasant (save for the few who themselves became capitalist farmers) to leave their lands and seek work for wages either for an employer in town or else still on the land as a hired farm-worker.

Improved knowledge of crop rotation was applied, the land was "fed" with marl; new implements, better ploughs, reapers, threshing machines (invented 1784) were introduced, new knowledge was applied to the breeding of cattle, and so on, and as a consequence of all these developments the land yielded a substantially greater produce. (For example, beeves which in 1710 average 370 lb., in 1795 reached 800 lb., and sheep reached 80 lb. against an average of 28 lb. in 1710.)

Alongside of all this there were important changes in the relationships of men in production. The feudal manor was largely self-supporting. It bought little and sold little. The peasants' needs for food, clothing, and protection from the weather were in the main met by the efforts of the peasants themselves. It has already been shown how an important part in the breakdown of feudal society was played by the growth of the market, and how the growth of the market also led to capitalist production methods both in agriculture and industry. These developments caused in due course a complete transformation in social conditions and the manner of life. The countryman was no longer growing food with the prime object of feeding himself and the small community to which he belonged. Now he produced to sell; he produced for the market, and the conditions of his life were more likely to be disturbed by the uncertainties of the market than by the uncertainties of weather and disease which (leaving aside the temper of his feudal master) had hitherto been the countryman's main concern. Life changed in other ways besides. Capital in agriculture, though in its early days it counted for something and was profitable, came in the eighteenth and nineteenth centuries in Britain to be overshadowed by capital in industry. Though the division of labour and the concentration of wealth played its part in the development of capitalism in agriculture, the scope for increasing profits from the bringing together of more and more capital, the division and sub-division of processes of production, and the introduction of new productive methods was limited. Private property in land, though it had initially released new productive forces, soon began to act as a fetter on further advance. .

In industry increases in surplus value due to the investment of

capital on improved plant and machinery go in full to the capitalist; in agriculture, as already explained, long-term improvements to the land have meant more surplus value for the landowner rather than for the farmer. Moreover, the parcelling out of the land into comparatively small units and the lingering rights of feudal times have served as obstacles to the development of large-scale and scientific farming. When capital has been invested in agriculture in a big way it has usually gone where the fetters of private property were less likely to hamper its large-scale development—in the Americas, for example, or the Dominions where there were big tracts of sparsely populated lands and fewer age-old property rights, or in colonial territories where the old conditions of land tenure were, with conscious purpose, brutally destroyed and the natives driven from the land to supply the needs of the invading capital.

In Britain farming technique has been slow to develop, and whilst the tendency towards the concentration of capital that plays a highly important part in industrial development is seen also in agriculture, its effects are far less pronounced and agriculture remains generally in the hands of the small-scale capitalist and the peasant farmer.

Though the farm-labourer was wretchedly exploited, working long hours for a wage that bought only the barest necessities of life, the farmer himself was not much better off. Forced to pay high rentals and heavy rates of interest to the banks from which he had from time to time to borrow, the British farmer between the First and Second World Wars did not generally make high profits. His products had to compete with imported foods and the large combines which monopolised the market for his goods took generous profit margins for themselves at his expense. The farmer had also to buy from monopolies, at the high prices which monopolies can enforce, such things as fertilisers, cattlefeed, and so forth. With so many people battening on such a backward industry it is not to be wondered at that the farmer fared poorly. The agricultural industry between the wars was allowed to sink into decay by a capitalist class that was interested only in its profits (not forgetting its profits from overseas investments in countries producing food for sale to Britain).

The Antithesis Between Town and Country

Because the investment of capital in the land runs into obstacles under conditions of private ownership, the scale of production in Britain (and indeed all Europe) carried on by each unit has remained very small. (In Britain, where something over a million persons are employed on the land, there are some 400,000 individual farms.) Large-scale farming has developed mainly in sparsely populated lands and lands less encumbered by the encrusted rights of landed aristocracy. There is, therefore, in Europe particularly, a vast difference between the social conditions in manufacturing and

heavy industry and the social conditions on the land. On the one hand, there is large-scale production, tens of thousands of workers employed in single factories, huge and dirty concentrations such as London, Birmingham, Glasgow, Newcastle, or Manchester; on the other hand, the quiet but stagnant life of the countryside with its small farms and villages. Corresponding to the economic contrast between town and country, is the difference in outlook and habits between the townsmen and country folk. Only when the anarchy of capitalist production and the fetters of private property are replaced by planned Socialism and public ownership will the unnatural gulf between town and country begin to be removed. The change will be to the great benefit of both.

Backwardness of British Agriculture and its Problems Today

Agriculture in Britain will remain backward in relation to industry so long as small-scale farming remains the rule and so long as the technical and scientific possibilities of the present day are not exploited to the full. The vast profits that the industrial capitalists accumulated in the course of the nineteenth century were not invested in British agriculture. Not only did the property rights and exactions of the landowners militate against this, but also with the growth of imperialism there was more or less conscious opposition from the capitalists themselves, since they saw in food and raw material imports one of the main means by which interest payments on their vast overseas investments would return to Britain. Such imports represented to the big capitalists with imperial interests a means of realising their profits from overseas investments. Thus the export of capital hit British agriculture a double blow; it deprived it of sorely needed capital which went in search of higher profits abroad, and it directly, or indirectly, stimulated the importation of agricultural produce from overseas.

Britain in this way became dependent to an excessive and unnecessary degree on overseas supplies of food. Food accounted for about half of our total imports in 1946, less than half of our food supplies being met from home production. One of the most vital tasks before the working class must be to break down the obstacles to agricultural expansion which capitalism and private property have created and rapidly expand and modernise an industry that has been allowed for many decades to rot and decay. Not unnaturally low wages and bad conditions of life have gone hand in hand with the decay of agriculture, and workers for years past have steadily drifted away from the land. The old conditions will have to be disposed of for good if agriculture is to provide more food. Moreover, appropriate forms of co-operation between the many small farms will need to be developed if the full advantages of mechanisation and scientific cultivation and stock-raising are to be enjoyed. Such advances can only be fully secured by a worker's State which has done away with private ownership of land and assists the farm-

ing community by the provision of capital for the improvement of the land and the methods of cultivating it.

Rent Other Than Rent for Agricultural Land

The "rent" that people are most familiar with is house-rent. In the main this is not rent at all in the sense in which the term is here used; for in the main house-rent is payment for a part of the use-value of a commodity (namely, a house, which is a product of human labour, and which takes many years to consume or use up). But ground-rent constitutes a considerable part of the rent that a worker pays for a dwelling or a capitalist pays for a factory or office. Building land commands considerably higher prices than agricultural land because the differential rent due to location is high. Sites in or near towns which are suitable locations for housing estates, blocks of flats, office and commercial buildings, factories, etc., are limited and in heavy demand, but the advantages of locating a factory, for example, near other related industries, near railways and other transport centres, and so forth, are very considerable and mean big economies in working costs. Similarly, a shopping centre, if it is to do good business, must be near to residential, industrial, or commercial buildings, that is in some place where potential customers congregate. Workers' houses must be reasonably near factories or factories near workers' houses. In these ways one urban development leads to another, and the industrial expansions of the last century and a half have lead to great increases in the price of land in and around the great industrial centres and to the vast enrichment of the owners of such land. The Marquess of Bute, for example, the owner of 117,000 acres of land, in 1938 disposed of an estate covering half of Cardiff and worth £20 million together with reversionary rights worth twice that amount. The Duke of Westminster owns a square mile of London, mostly in Belgravia and Pimlico. The Duke of Devonshire, like many other property owners, assumed the anonymity of a limited company—Chatsworth Estates Ltd.—which is the "landlord" of a number of immensely valuable properties. The Church is another great urban landowner, whose revenue from property in 1939 totalled £1,822,000 (including £345,000 from houses and premises in or near London, £84,000 from the Paddington Estate, £693,000 from ground-rents on leases over fifty years, £337,000 from royalties, and £237,000 from farm lands and buildings). Such are some of England's land and property owners who year after year draw from this source a huge unearned income which totalled in 1946, for example, with rent restrictions and all, no less than £386 million.

Differential rents are also paid for other advantages to be reaped from the use of particular areas of the earth's surface or of its sub-soil, such as royalties for mining rights, wayleaves, enhanced rentals for land on which water supplies are to be found or on which electricity can be cheaply generated from water-power, land

offering special attractions to tourists, and so on. Wherever there is private monopoly ownership of land endowed with such special features, the opportunities offered for racketeering at the expense of the community are not neglected by the ruling classes.

Productive Relations in Agriculture

Productive relations in agriculture are complex and various. The capitalist farmer is the exception rather than the rule in the world as a whole, though the hand of capitalism and monopoly capitalism makes itself felt wherever food is grown for sale. It may therefore be useful here to summarise the main types of economic and productive relations that are to be found in agriculture.

I. The actual *working of the land* may be undertaken by

(*a*) a peasant-farmer employing no labour-power other than his own or his family's;

(*b*) a small capitalist farmer employing, perhaps, three or four "hands", and himself a "working farmer" (typical of much English farming);

(*c*) the "gentleman farmer", not himself working, but living from the surplus value derived from a large farm;

(*d*) large-scale ranch or plantation farming, involving big capital (mainly in the colonies and North and South America);

(*e*) co-operative farming, which may assume a wide variety of forms, ranging from joint working of the land to joint use of machinery and marketing of produce (mainly on the Continent of Europe).

II. *Ownership* of the land may be

(*a*) by an old feudal or landowning class exacting rents, dues or share of produce, usually from peasants or small farmers;

(*b*) by capitalists or property owners who have invested their capital in land and may or may not have an interest in the undertaking using the land;

(*c*) small farmers or peasants owning their own land, which is, however, frequently mortgaged and therefore in the virtual ownership of the mortgagee (usually a bank or other financial institution).

III. *Sale of produce* is for a very wide range of agricultural produce to large monopolies; for example, in the United Kingdom Ranks and Spillers (flour), in Africa Unilever (palm-kernels, etc.). Purchase of supplies (such as fertiliser from Imperial Chemical Industries) must also be made from monopolies for a considerable range of goods. The agricultural producers (most of whom are peasants and small men) are thus squeezed from either side by monopoly capitalism, with the result that a considerable part of the values produced on the land are appropriated by monopolies who can fix high selling and low buying prices.

CHAPTER VIII

REPRODUCTION OF CAPITAL AND CRISIS

The anarchy of capitalist production—The turnover of capital is the " life process " of capital and its interruption is crisis—Simple and expanded reproduction and the disproportions that afflict capitalism—Crises of relative overproduction due to poverty of masses as compared with unlimited expansion of productive forces—Crisis inevitable because it expresses the contradiction inherent in production for profit—Cyclical character of crises—Long-term tendency for the contradictions of capitalism to become deeper, leading up to the general crisis of capitalism.

THE law of survival in the world of competing capitals is accumulation; the capitalist seeks ever more and more profit in order that he may grow strong in the capitalist jungle. Profit as a means to more profit is the essential aim of capitalist production. The satisfaction of the needs of the masses of the people is not the aim of capitalist production, nor even the provision of luxury goods for the propertied classes. The aim is profit.

Anarchy of Capitalist Production

Capitalist production is without plan or order; it is " anarchic ". Each capitalist employer decides what and how much is to be produced, whether output should be increased, maintained, or cut down, whether a factory should be closed or a new factory built and set to work. His decisions are guided by his ability or otherwise to sell his products at profitable prices and his expectations of finding profitable markets in the future. Such order as exists in capitalism is therefore the order imposed by the blind laws of the market, not the purposeful order of a conscious plan (such as exists in socialist production). " Anarchy ", writes Engels, " reigns in social production. But commodity production, like all other forms of production, has its own laws which are inherent in and inseparable from it; and these laws assert themselves, in spite of anarchy, in and through anarchy. These laws are manifested in the sole form of social relationship which continues to exist, in exchange, and enforce themselves on the individual producers as compulsory laws of competition. . . . They assert themselves apart from the producers and against the producers, as the natural laws of their form of production, working blindly. The product dominates the producers." (*Anti-Dühring*, p. 299. M.S.W., Vol. I, pp. 170-1.)

The Turnover and Reproduction of Capital

As long as capitalist production continues without interruption, capital is being " turned over " and reproduced, and profits are being reaped. The turnover of capital is the " life process " of capitalism and deserves therefore some further consideration, supplementing what has already been said on this subject in Chapters IV and V. The basis of capitalist economy as a whole is industrial

or productive capital, that is capital which is used to produce new commodities embodying values and surplus values. This capital must endlessly pass, if it is to keep "active", through a series of changing forms. Starting with money the industrial capitalist buys (*a*) means of production, buildings, machinery, raw materials, etc., (*b*) labour-power. Then follows the productive process, and the labour-power is set to work using the machines and raw materials to produce new commodities. However, if raw materials are not available, the turnover of capital is interrupted; production cannot go on until a source of supply for the missing raw materials has been found. Again, if machines or replacement parts cannot be purchased production is held up and the turnover of capital is interfered with or interrupted until supplies are obtained. Again, if labour-power is not available—if, for example, the workers go on strike—the turnover of capital cannot proceed until a supply of labour is forthcoming. Thus in order that the turnover of capital may continue, the capitalist must continuously be able to purchase the labour-power and means of production that he requires. In terms of the formula M—C...P...new C—M^1 (Money—Commodities...Production...new Commodities embodying increased value—increased amount of Money), the successful completion of the stage M—C presupposes that the commodities required are available. It will be clear from what has been said above that if the scale of production is to be expanded, the capitalist needs not only an increased amount of money at the start of the new cycle of production, but he must also be able to purchase additional supplies of means of production and labour-power. If these are hard to obtain the expansion will be impeded.

When the process of production is completed the capitalist has in his hands commodities embodying old values previously contained in the means of production and new values created by the workers' labour. At this stage of the turnover his capital has assumed the form of commodities and it must speedily complete the next stage of the turnover if it is to keep alive. The commodities produced must be sold (new C must become M^1). This is only possible so long as there are purchasers willing and able to buy—at profitable prices—the commodities which the capitalists produce. The turnover of capital depends therefore on the goods produced being sold. If this does not happen, the turnover is baulked and interrupted.

The whole problem of capitalist crisis is to explain why the turnover of capital is impeded or interrupted. The explanation of economic crisis falls therefore into three parts:

First, the study of the turnover of the social capital as a whole, which involves considering the relationship between the different branches of industry. This process involves the continual reproduction of capital, and is described therefore as *simple reproduction* if the total capital stays the same and as *expanded reproduction* if

the total capital is increased. The study of simple and expanded reproduction shows what conditions need to be fulfilled if the market is to supply the goods that are in demand and to demand the goods that production supplies. From this study we see how disproportions between different branches of industry *might* disturb the balance of industry and hamper the turnover of capital. All this explains, as it were, the setting for, but not the essence of, crisis.

Secondly, the study of effective demand in relation to productive capacity. The study of this problem gets to the essence of capitalist crisis.

Thirdly, the study of long-term trends which tend to aggravate the contradictions that lead to economic crisis. In its full extent this involves the study of the general laws of development of capitalism not only in the period of free competition but also in the period of imperialism and the general crisis of capitalism. These latter topics will be dealt with in Chapters IX and XI.

Simple Reproduction

In order to consider the balance between different branches of industry in its most simple—and fundamental—form, we divide all industry into two main groups: (I) industries producing goods used in the production of other goods, that is " means of production ", and (II) industries producing goods which pass out of the field of production to be consumed in satisfaction of some human want—that is " consumers' goods ", also called " means of consumption ". (Of course, there are some goods which may be used either as consumers' goods or as means of production, such as coal, which may be used for heating homes or as industrial fuel. Such industries must be considered as falling partly under (I) above and partly under (II).) What balance must exist between these two departments of production in order that the turnover of capital may continue smoothly? It will be convenient first of all to consider *simple reproduction* of capital, that is the mere replacement of the capital used without any new capital being created out of the surplus value produced; or, in other words, reproduction without accumulation.

Capitalists producing means of production (Department I) buy raw materials, plant, etc., and hire labour-power which when set to work produces in addition to its own value a surplus value. The products of all these industries will therefore have a total value that is built up of (i) the value of the constant capital consumed (raw materials, part of machinery used up in the production period, fuel, ancillary materials, etc.); (ii) the variable capital (wages); and (iii) the surplus value (c + v + s).

Similarly the total values produced in the consumption goods industries (Department II) will be built up of (i) constant capital consumed; (ii) wages; (iii) surplus value.

The capitalists in Department I have at the end of the process of production a mass of " means of production ", only a part of which

they can themselves use in the next cycle of production. If their workers are to live, they cannot feed themselves on "nuts and bolts" and the other means of production they have produced. To live they must buy consumers' goods—food and clothing—the products of Department II. Likewise the capitalists who, it is assumed, do not accumulate but spend all their surplus value on means of consumption, will wish to buy goods produced by the other group of capitalists in exchange for their surplus value that has been embodied in such commodities as machines, steel, "nuts and bolts", etc., that is means of production. The capitalists and workers in the consumer goods industries, on the other hand, can get their means of living from the products of their own group of industries, but the machinery and raw materials which they need for the next cycle of production they will have to buy from the capitalists of Department I producing means of production.

If, therefore, the demand for, and supply of, consumers' goods and producers' goods respectively are to balance, the means of production offered for sale by the producers' goods industries (over and above what they take for themselves) must equal in value the consumers' goods offered for sale by the consumers' goods industries (over and above what they take for themselves). Since simple reproduction is here being considered (that is, it is assumed that there is no accumulation of capital), all surplus value will be spent on consumption and the condition for demand and supply balancing is that wages and surplus value in the producers' goods industries should equal "constant capital" used up in the consumers' goods industries: v + s in Department I must equal c in Department II.

Expanded Reproduction

Expanded reproduction means reproduction of capital on an increased scale. This is done by using a part of the surplus value produced in the course of one "turnover" of capital as new, additional capital in the next "turnover". The surplus value accumulated (that is turned into new capital), will partly be spent on raw materials, machinery, etc., forming constant capital, and partly on the wages paid to the additional workers employed by the new capital. If demand is to balance supply under these circumstances, Dept. I's demand for consumers' goods must balance Dept. II's demand for producers' goods. However, Dept. I's demand for consumers' goods will not be the same as it was in simple reproduction. It will consist as before of wages and capitalists' consumption but this time to the original wages must be added the wages of the new workers employed as a result of the new investment of capital (naturally this will be only a part of the total new investment). On the other hand capitalists' consumption will not equal the whole surplus value produced in Dept. I because that part of the surplus value which is accumulated (the *whole* new investment) must be deducted. Also Dept. II's demand for machinery, raw materials, etc.,

will have changed and now to the original value of the constant capital consumed there must be added such part of the new investment out of surplus value as is expended on raw materials, machinery, etc.—that is in the form of new additions to constant capital: v + new v + s spent on consumption in Department I must equal c + new c in Department II.

How these Proportions are Established

It is not difficult to see that in a thousand sub-branches of industry (such as production of timber, steel, machines, tools, bread, luxury foods, etc.), the values produced and the values used as means of production must be properly proportioned to one another if the final balance between the two Departments is to be achieved *and the value of the goods demanded from the market is to equal* the value of the goods offered for sale. In fact, these proportions are never established with any precision. Only in a Socialist economy *planned in accordance with the conscious purpose of society could* the subtle balance between the several branches of industry be properly maintained. In unplanned capitalist society thousands of privately controlled businesses decide what will be produced without knowing what other capitalists in their own or other countries are going to produce. Each assumes that market conditions, supply and demand, will be such as to absorb his products when they are ready for sale. The network of supply and demand is, in fact, infinitely complex, for the balance to be struck is not only between means of production and means of consumption in general, but also between the many sub-divisions of each industry; for example, there must be a certain proportion between the production of textile goods and textile machinery, between the output of the engineering industry and the supply of iron and steel, etc., etc.

The disproportions that afflict capitalist production are never easily overcome. Overproduction here will lead to falling prices and bankruptcies. Shortages there will temporarily result in extra profits which may lead to expanded production and attract new capital. So crudely, blindly, bringing in their train unemployment and idle machines and plant, the laws of the market and the laws of commodity exchange under capitalism assert themselves. As technique changes, further changes occur in the balance between industries, and so endlessly adjustments and readjustments become necessary. However, the disproportions linger on, impede the turnover of capital and incessantly cause endless waste of productive resources.

Crises of Relative Over-production

What has so far been said may be summed up as follows: the anarchy of capitalism causes ceaseless waste and dislocation, the subtle proportions between the different branches of production that make up the complex network of modern industry are only established in the ebb and flow of capital which takes place so long as

there are disproportions causing products to be sold above or below their values (or, more accurately speaking, *prices of production*). However, this planlessness of capitalism, in which economic law asserts itself only blindly and crudely, is not in itself the cause of capitalist crisis, though it is one of the necessary conditions.

The cause of the crises which periodically affect all branches of capitalist production at once, is to be found in the very relationship between the capitalist class and the workers, the contradiction between the exploiters striving to increase production (in order to increase profits) and at the same time striving to keep down wages (also in order to increase profits) and thereby cutting down the consumption of the masses. How does this underlying contradiction between supply and demand come about? How is it that capitalism again and again leads to crises involving untold waste, destruction, and human suffering?

It is first necessary to consider how *relative over-production, namely, production in all branches exceeding effective demand, is* possible, a fact which bourgeois economists have for a hundred years denied. Over a century ago those whom Marx called the vulgar economists (such as J. B. Say, the French economist) asserted that over-production was impossible since every sale represented a purchase and every purchase a sale. (They recognised the unity but failed to recognise the contradiction implied in purchase and sale.) This line of argument, which reappears again and again in bourgeois economic theory, runs generally as follows: every sale creates income for the seller, who in return distributes the proceeds as wages, profits, interest, rent, etc., which represent the purchasing power which constitutes demand. Therefore total output necessarily equals total demand. This superficially plausible dogma so bewitched bourgeois thought that when in the 1930s J. M. Keynes (without departing from the underlying assumptions of bourgeois economics) suggested that demand need not cause full utilisation of resources even though economic forces are free to operate without restriction, it was regarded as a revolution in economic science. However, the bourgeois professors failed to observe that some eighty years before Keynes, Marx had already made a more penetrating analysis of Say's dogma and had rejected it as an absurdity —not to mention the fact that repeated economic crises had provided a very practical refutation.

The theoretical refutation of Say's dogma is not difficult. Its plausibility derives from the fact that whenever some one sells a commodity some one else is paid. If payment were made in goods, if, that is, barter prevailed, it would, of course, be true, not to say obvious, that for all goods given in barter a corresponding amount of goods are received in barter; here, if you like, supply must equal demand. But when money intervenes, it is not at all necessary that demand should equal supply or for every sale to represent a purchase *of another commodity*.

"Nothing can be more childish", writes Marx, "than the dogma, that because every sale is a purchase, and every purchase a sale, therefore the circulation of commodities necessarily implies an equilibrium of sales and purchases. If this means that the number of sales is equal to the number of purchases, it is mere tautology. But its real purpose is to prove that every seller brings his buyer to market with him. Nothing of the kind. The sale and the purchase constitute one identical act, an exchange between a commodity-owner and an owner of money, between two persons as opposed to each other as the two poles of a magnet. . . . No one can sell unless some one else purchases. But no one is forthwith bound to purchase because he has just sold. Circulation bursts through all restrictions as to time, place, and individuals, imposed by direct barter, and this it effects by splitting up, into the antithesis of a sale and a purchase, the direct identity that in barter does exist between the alienation of one's own and the acquisition of some other man's product. . . . If the split between the sale and the purchase becomes too pronounced, the intimate connection between them, their oneness, asserts itself by producing—a crisis." (*Capital*, Vol. I, p. 87.)

Wherever commodity exchange has developed, the *possibility* exists that commodities produced for sale may not find a purchaser. The values produced *may* not be realised. When capitalism has developed, this eventuality is not merely possible, it is inevitable, for reasons that will be explained in the next section. Here, however, it may be pointed out that in developed capitalism the capitalist will buy goods and labour-power—that is he will re-invest the capital and surplus value which he gets back in money form from the sale of his products—only in so far as *re-investment promises to be profitable.*

The Inevitability of Crisis in Capitalist Production

The purpose of capitalist production is to increase capital by producing and *realising* surplus value in exchange.

In the process of reproduction capital has to pass through three stages: (i) money capital is transformed into productive capital (machinery, raw materials, labour-power), (ii) productive capital by the process of production is transformed into commodities of a higher value than the capital used up, (iii) commodities (including the "surplus") are reconverted into money again. Without this continuous transformation, capital remains idle; it cannot produce surplus value.

Why is it *inevitable* in this capitalist process of production that there should periodically be crises of over-production, in which productive capacity and the production of goods for sale outstrips the effective demand?

Consider, first, the supply side. Every capitalist is ceaselessly striving to increase his profits in order to increase his capital and

thereby increase his profits and so on *ad infinitum*. The capitalist who instals new plant and introduces new methods, reaps on every article produced extra profits at the expense of his rivals who have less advanced methods of production. On the other hand, the capitalist who does not build up his productive resources is liable to be forced out of business by his rivals. The drive for ever more accumulation and ever more productive power is, therefore, inseparable from capitalist production. Marx speaks of " the tendency of capitalist production to develop the productive forces as if only the absolute power of consumption of the entire society would be their limit." (*Capital*, Vol. III, p. 568.)

Now consider the other side of the picture—demand. Demand will be high for goods of all sorts and for producers' goods in particular when capital is turning over rapidly and its reproduction is expanding, when the capitalists are investing as much as possible in new production. This means increased orders for producers' goods and more employment temporarily, but the *ultimate* realisation of the value of producers' goods (Department I) occurs when consumers' goods (Department II) are sold and the values embodied in them pass out of circulation. It is, therefore, on the demand for consumers' goods that the demand for all the other goods used in production ultimately depends. On what does the level of demand for consumers' goods depend? In a fully capitalist country such as Britain, the money that is spent on consumption will, in the main, be either the wages of workers or else will come out of surplus value. Of these two sources of expenditure on consumers' goods the wages of the workers is much the more important, even though individual capitalists (far fewer in number) live luxuriously. Moreover, as already explained, the proportion of surplus value spent on consumption is an ever diminishing one, since it is of the essence of capitalism that as concentration and centralisation of capital proceeds an ever greater part of profits is accumulated by the capitalist class as a whole. Accumulation becomes a condition of survival in the jungle of competing capitals.

It follows that the decisive element, the main factor ultimately determining the level of demand for consumers' goods is, in a capitalist country (under normal conditions) the sum total of wages paid to the workers. Capitalist production is, however, production for profit. Its aim is to appropriate more and more surplus value—nothing else—and the lower the worker's share the greater the surplus value. Endlessly and always the capitalist strives to reduce wages, particularly relative wages, that is the values paid out in wages as compared with the values produced. Thus the tendency of capitalist production is inevitably and always to force down the share of the total values produced going to the wage-earner. The consuming power of the masses is always more and more restricted in relation—and this is what matters—to the productive resources of capitalism. This is the case even when total wages and the

numbers of workers employed are increasing, since under such circumstances output is as a rule more rapidly expanded than the share going to the workers. The extra wages paid out of surplus value accumulated may temporarily cause a heavier demand for consumers' goods, but eventually, when the extra production to which the new capital gives rise begins to flow off the production line, the disproportion between what is produced and what the workers get is even more pronounced than before.

The root cause of economic crisis is, therefore, to be found in the innermost core of capitalist production, in the form of exploitation itself and in the ceaseless striving after surplus value that is the very motive force of capitalist production. The inevitability of capitalist crisis derives from the contradiction between the social character of production and the private appropriation of the values produced by the capitalists who use them solely with the aim of appropriating more profit. The thirst for profit causes each capitalist on the one hand to expand without limit his productive resources and, on the other hand, to restrict ever more and more the share in the product going to the worker. The same motive—profit—stimulates these mutually contradictory tendencies. Marx, in a famous passage (quoted in part above) describes this two-sided cause of capitalist crisis thus: "The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces as if only the absolute power of consumption of the entire society would be their limit." (*Capital*, Vol. III, p. 568.)

Crisis and the Struggle for Markets

The contradiction that leads the capitalists to crisis also drives them to try to escape crisis by winning new markets. Capitalist goods invade the territories of all the older modes of production, destroying handicraft and peasant production. Large-scale production calls for expanded markets and new outlets are sought overseas. However, as capitalism spreads over ever larger sections of the world, the contradictions of capitalism appear not merely as contradictions within each national economy, but as contradictions of world economy. An ever wider range of independent producers and the many millions of peasants and handicraft workers in colonial and backward countries become with the spread of capitalism more and more impoverished. Everywhere where capitalist production establishes itself, it forcibly creates an impoverished proletariat and a mass of unemployed workers, the "reserve army" of capitalism. In short, where capitalism goes it creates poverty undermining the purchasing power of the very people that it has drawn within its orbit.

A Century and a Half of Recurring Crises

Crisis is the violent expression of the fundamental contradiction

of capitalist production, which expresses itself as the contradiction between social production and private appropriation of the product. All depend on all, and all are linked to all in modern capitalist society (that is to say production is *social*), the decisions on what shall be produced, when, where, and how, are taken by the relatively small number of capitalists in the light only of their *private* interests of profit and power. With ever-increasing intensity this contradiction has expressed itself in general crises of over-production which have recurred roughly every ten years since the beginning of the nineteenth century. "For many a decade past", wrote Marx and Engels in the *Communist Manifesto* of 1848, "the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeoisie and of its rule. It is enough to mention the commercial crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly. In these crises a great part, not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of overproduction. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed. And why? Because there is too much civilisation, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them."

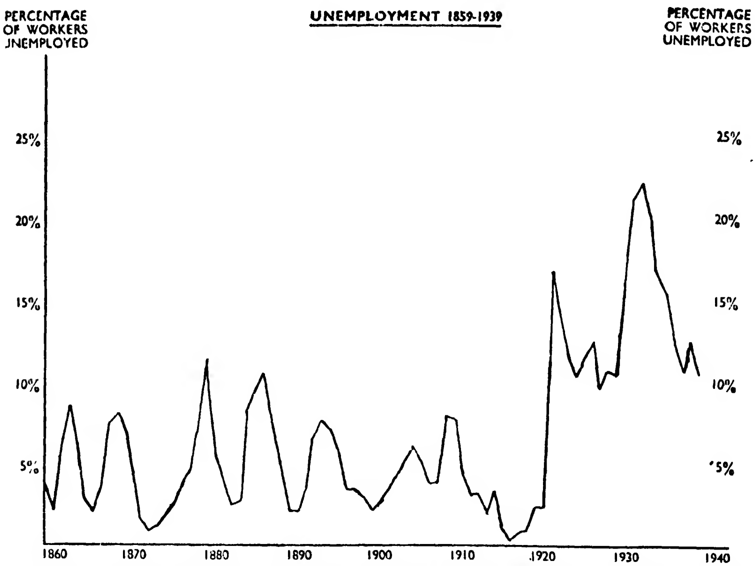
The simple facts of history demonstrate clearly that the inherent contradiction of capitalist production is a thing of solid reality. Sir William Beveridge, in his *Full Employment in a Free Society*, analyses the course of industrial activity in Britain for over a century and a half, and concludes that "fluctuation of industrial activity in Britain in periods of an average length not very different from those of the modern trade cycle can be traced over the whole time for which data of construction industries are available, i.e., from 1785" (p. 309). He records (p. 281) the following years of boom and slump:

Crests	*Troughs*
1792	1797
1803	1808
1810	1816

Crests	*Troughs*
1818	1821
1825	1832
1836	1842-43
1845-46	1849-50
1853	1858
1860	1862
1865	1867
1874	1879
1882-3	1886
1889	1893
1899	1903-04
1906-07	1908-09

A boom followed the 1914-18 war, giving way to slump in 1921, a new boom in 1929 was followed by slump that reached its lowest point in 1932. In 1938 industrial activity was falling off sharply, but the normal course of a new crisis that was developing was interrupted by the arms race and preparations for war.

The tale of slump and boom is told for the last eighty years in terms of workers unemployed. The attached diagram depicts the rise and fall of the percentage unemployed. It reveals also the growing "reserve army" of unemployed and the deepening severity of capitalist crises.



From the 1840s on, this same cycle of production repeats itself not merely in Britain but also in Europe and America; the crisis of over-production becomes a world crisis of over-production.

The Trade Cycle

The contradiction of capitalist production makes itself felt, not in the form of a prolonged steady over-supplying of the market, but in *periodical* crises. In a slump orders will be cut and the low level of production will be supplied largely from existing stocks; but in time replacement becomes necessary and productive activity increases. Capitalists find that the demand for their products is improving. Many therefore decide with each new turnover of capital to extend their scale of operations; they buy more raw materials, perhaps instal some new machines, and employ more workers. This increased activity at certain points within the capitalist system has important consequences for capitalism as a whole. For example, more workers will be employed and as a result more wages in total will be paid. This will mean a more lively demand for food, clothing, furniture, and for all the other goods that enter into the consumption of the working class. The suppliers of these goods will feel the demand for their products increasing, prices will probably go up and this will encourage them to produce more than before. However, as well as—and more important than—the increase in the wages bill will be the increased demand for equipment and for raw materials, leading to rising prices and expanded production of these " producers' goods ". Everywhere *the market* expands—and it should not be overlooked that in the short run the capitalists depend every bit as much on the market for " producers' goods " as on the market for " consumption goods ". It is evident, therefore, that an expansion in economic activity at one point leads to expansion elsewhere.

As expansion at one point in the system stimulates expansion elsewhere, giving rise to yet further expansions, demand begins to outstrip supply; business looks up and all seems to go well. But how long does this go on? In this stage of recovery the increased demand will be both for producers' goods and consumers' goods; but the emphasis at this stage will tend to be on producers' goods. New modern methods of production in which labour costs are relatively low (and constant capital relatively high) will go ahead fastest; also extra raw materials and machines, etc., must be ordered and obtained first before expanded reproduction can go ahead. It will take time, in some cases a year or two, for these goods to be produced and delivered; but at last they will come forward in increased quantities and begin to be converted into other products. Ultimately the values they represent will be embodied in "consumption goods"; a piece of steel, for example, is made into a petrol lighter *or* into a machine tool which in turn begins to gradually give up its value in use and to embody it in the numerous goods produced through its agency, be they petrol lighters, pencils, or other machine tools—which in turn form a link in a chain of production that normally will end in the production of "consumption goods".

In time—it may be two years, or three years, or four years or more—productive activity gathers momentum and the wave of increased production flows through the various branches of the economic system until in the end a spate of consumption goods begins to fill the markets. As long as the new values being produced had not found their way to their ultimate destination—goods for consumption—the increased total of wages being paid kept the market brisk for consumption goods, and high prices yielding high profits provided the capitalists with plentiful funds for accumulation and so sustained a demand for producers' goods. But the values paid out in wages are only a part (and as capitalism develops a diminishing part) of the total values produced; *the demand represented by workers' wages does not increase as fast as production and productive capacity increases.* Nor do the capitalists consume what the workers fail to consume. On the contrary, lured by high profits, they will embark on ambitious new ventures and seek credit from the banks, whose deposits will have been enlarged by rising prices and expansion of economic activity alike. Credit provides the basis for more credit. Capitalist prosperity—soaring prices and profits—urges on every sort of speculative investment in both trade and production. Productive capacity is still further expanded; speculation forces up the prices of raw materials. But—to repeat—the ultimate destination of it all is goods for consumption and the increase in the demand for consumption goods created by the increase in employment and wages does not, by a long way, keep pace with the increase in production. The contradiction between the expanding power to produce and the restricted consuming power of the masses must assert itself. What is produced cannot be sold. The expansion stops with a crash. Crisis follows the boom.

Clearly as capitalist production proceeds and productive capacity is enlarged and improved, the number of workers remaining unemployed, even in boom periods, tends to increase, and the gulf between output and consumption widens. Crises become more and more severe.

How does the crisis start and where? And what happens once it has started? It seems often to start as the result of some accidental chance event, a bankruptcy or ill-conceived speculations; but the underlying condition that starts the crisis is the fact that markets are beginning to be glutted. At root the glut means that there are more consumers' goods in course of being produced than the masses have the purchasing power to buy; but the crisis by no means necessarily starts in the industries producing consumers' goods. The fact that consumers' goods industries cease to expand as fast as previously might cause orders for raw materials or machines to fall off with a consequent laying off of workers and cancelling of orders, which in turn leads to laying off workers and cancelling orders elsewhere.

The slump is generally cataclysmic, since once the threat of

glutted markets and falling prices is seen, every capitalist hastens to save what he can. Some quickly cut production and try to sell while they may the goods they have on hand; or they will try to maintain prices by destruction of stocks and means of production. In a few months production has dropped down to a low level of activity. A period of stagnation follows—the " depression "—which may continue for a matter of years. After a time when many factories have been closed down, when others have continued production at a low level without renewing their equipment, when stocks have been sold out or destroyed, a stage is reached when the meagre supply of commodities has fallen below the reduced demand. Things do not, after all, come to a complete standstill even in the worst crisis; there remains a certain minimum demand that is " effective " and has to be satisfied. Necessary repairs and re-equipment of plant are postponed as long as the crisis is acute. When prices are slumping nobody buys if he can wait until they have touched bottom. In the end, however, some orders will be placed. Eventually production and employment begin to rise again and demand for goods begins to increase in step with the increased incomes of newly employed workers. The economic system gets back again to the stage of recovery. So the cycle continues; recovery—boom—slump —depression—recovery, each cycle taking as a rule some ten years or thereabouts.

Fixed and Circulating Capital and the Trade Cycle

It was explained in Chapter V that the essential difference between *fixed* and *circulating capital* is to be found in the different rates at which they turn over, and the fact that fixed capital yields up its value gradually and circulating capital " at one go " (see p. 66). Circulating capital (capital devoted to the purchase of raw materials, etc., and the payment of wages) normally completes the cycle Money—Commodities—Money in a matter of months, whereas it is a matter of years or even decades before fixed capital (capital invested in machinery, factory buildings, etc.) has yielded its full value and returned into the hands of its owner in the form of money.

In analysing and explaining the course of the trade cycle, it is important to bear in mind this distinction between fixed and circulating capital. If production is to continue, circulating capital must continually be replaced; wages must continue to be paid, and raw materials must continue to be provided. If circulating capital is not replaced in full, then production cannot continue at the same level as formerly. The position with regard to fixed capital is very different: machines and buildings need not, and indeed usually will not, be steadily replaced as they wear out.

When the first signs of crisis appear, capitalists who in the boom had been tumbling over each other to buy new machinery and build new factories, immediately stop doing so and scrap their plans for

expansion. Their expenditure on fixed capital is limited to provision, severely reduced, for repairs and maintenance.

Fluctuations in construction and machinery production are therefore far more violent than in industry generally. The replacement of fixed capital does not follow a smooth course but goes by " stops and starts " in rhythm with the cycle of boom and slump. Marx, writing in 1870 on the turnover cycle of capital, says: " If the development of fixed capital extends the length of this life [of industrial capital] on the one side, it is on the other side shortened by the continuous revolution of the instruments of production. . . . This implies . . . the necessity of continuous replacement . . . long before they are worn out physically. One may assume that this life cycle, in the essential branches of great industry, now averages ten years. However, it is not a question of any one definite number here. So much at least is evident that this cycle comprising a number of years, through which capital is compelled to pass by its fixed part, furnishes a material basis for the periodical commercial crises in which business goes through successive periods of lassitude, average activity, over-speeding, and crisis. . . . A crisis is always the starting-point of a large amount of new investments. Therefore it also constitutes, from the point of view of society, more or less a new material basis for the next cycle of turnover." (*Capital*, Vol. II, p. 211.)

The following figures illustrate the relatively more violent oscillations of industrial activity in construction and production of machinery in the great crisis of 1929:

Index of Industrial Activity
(*Full Employment*, Beveridge, pp. 312-13)

	Construction and Instruments	*Other Industries*
1929	133.9	113.3
1930	119.8	109.3
1931	74.9	99.1
1932	51.1	95.0
1933	75.9	95.4
1934	100.2	100.3

Tendency of the Falling Rate of Profit

As the depression gives way to recovery prices begin to rise. With the onset of the boom prices rise still further, then, auguring the slump that must follow the boom, prices begin to weaken and sooner or later the crash comes and prices tumble headlong down. These price movements are not the cause, but the consequence, of the trade cycle; however, through these ups and downs of prices certain long-term tendencies assert themselves. The process of accumulation of capital, with improving technique, involving less labour in the production of each unit, reduces the exchange value

of each unit, and so should reduce the price. But in fact, no capitalist reduces his price until the market compels him to do so. While in the period of boom the technique of an enterprise or industry may be rapidly improving, the big demand usually enables the capitalist to maintain the old price (or even increase it) in spite of the reduced value of each unit. It is only when the crisis comes that there is a 'shake-out', a compulsory adjustment of prices to the reduced value of the products. For the capitalist, when prices are high and demand is brisk, it will be easy to earn a high rate of profit; this will encourage him to new investment and production on an expanded scale which, in the short run, will help to sustain the boom, but in the long run widens the gap between production and consumption and makes the ultimate crash more certain and severe.

The contradiction between production and consumption begins to make itself felt in a weakening of prices. This must lead capitalists to retrench and "draw in their horns", since lower prices must mean a lower rate of profit. The cutting back of production in one place leads to cutting back elsewhere. The crash starts. Prices tumble down and profits fall, sink for some capitalists to nothing, and for others turn to losses. With this rise and fall in prices in the course of boom and slump the rate of profit oscillates violently, rising sharply in the boom and dropping steeply in the slump. This upswing and downswing of profits does not, of course, reflect changing rates of exploitation, but changing relations of prices and values which arise from the changing conditions of demand and supply in the successive phases of the trade cycle.* However, back of the oscillations in the rate of profit that reflect the changing market conditions in the cycle of boom and slump, long-term forces are at work. As capitalism "shakes out" of each crisis, it emerges changed; it is no longer able to earn as high a rate of profit as before, a truly alarming phenomenon for a system of production in which the be all and end all is profit.

Why does this happen? Each capitalist, it goes without saying, is ceaselessly striving to increase his own profit. This he sees he can do if he can get a greater output out of his workers without costs being correspondingly increased. He is therefore looking always for new methods of production, new technique, new plant and equipment, which will reduce his costs. His interest is not in productivity for its own sake, but in possible ways of increasing profits. Naturally, if wage rates are very low, the inducement to introduce costly labour-saving machinery will be less strong. Again, in "monopolised" industries which are not exposed to the full blast of cut-throat competition capitalists may delay the introduction of new plant and

* In the boom prices *in general*, that is all prices, tend to be above value; in slump they tend *in general* to be below value. Price is the *money* expression of value; a general price rise means, therefore, a fall in the value of money and vice versa. In the course of the trade cycle, there are sharp reversals (at the peak of the boom and trough of the slump) in the exchange relationship as between commodities in general on the one side and the money commodity on the other.

technique in order to safeguard the value of the equipment which they already possess. However, even with cheap labour or monopoly conditions the drive towards technical advance (though weaker and slower) nevertheless persists. Moreover, in the upswing of the trade cycle wages tend to rise and this necessarily acts as an additional stimulus to technical improvement.

Reduction of costs and the measures necessary to this end seem from the capitalist's standpoint plain common sense. He would, for example, calculate that, with wages at such and such a rate and the cost of machinery, etc., being such and such, he could produce more at a lower cost per unit and make a good extra profit. There is, however, more in all this than meets the eye. The capitalist has laid out capital on machinery and his new machinery will, because it increases productivity, involve as a rule greater consumption of raw materials per man employed. His outlay on constant capital will therefore increase greatly by comparison with wages (variable capital) not only on account of the cost of the improved machinery but also because of the additional consumption of raw materials. Suppose that he now expends £80 on constant capital for every £20 on variable, whereas before he expended £50 on constant for every £50 on variable. What effect will this have on the rate of profit? If in the first instance the rate of surplus value was 100 per cent, the overall rate of profit would have been 50 per cent, thus:

$$\begin{array}{l} c + v + s \\ 50 + 50 + 50 = 150 \text{ and} \end{array}$$

$$\text{the rate of profit} = \frac{s}{c + v} = \frac{50}{100} = 50 \text{ per cent}$$

However, after the introduction of the new machinery, even though the rate of exploitation is increased to 150 per cent, the rate of profit falls to 30 per cent. Now £80 goes on constant capital for every £20 on variable, and the whole calculation works out as follows:

$$\begin{array}{l} c + v + s \\ 80 + 20 + 30 = 130, \text{ and} \end{array}$$

$$\text{the rate of profit} = \frac{s}{c + v} = \frac{30}{100} \text{ and is therefore 30 per cent.}$$

This is indeed a startling result, which seems so opposed to everyday industrial experience as to be hard to believe. The capitalist only adopts technically improved methods of production when—and because—they will bring him more profit.* The analysis given above seems to prove quite the opposite. The point, however, is that the immediate consequences for the industrial capitalist are

* Once expensive new plant has been installed, once workers have been trained to particular methods, and so forth, heavy financial loss will be involved if a capitalist introduces new methods before the old have earned their keep. Technical development as between different firms, different industries and indeed different countries is for such reasons necessarily uneven: now one goes ahead and now another.

altogether different from the ultimate consequences for capitalist society and the capitalist class as a whole. " No capitalist ", writes Marx, " voluntarily introduces a new method of production, no matter how much more productive it may be, and how much it may increase the rate of surplus value, so long as it reduces the rate of profit. But every new method of production of this sort cheapens the commodities. Hence the capitalist sells them originally above their prices of production, or perhaps above their value. He pockets the difference, which exists between these prices of production and the market-prices of the other commodities produced at higher prices of production. He can do this, because the average labour-time required socially for the production of these other commodities is higher than the labour-time required under the new methods of production. His method of production is above the social average. But competition generalises it and subjects it to the general law. Then follows a fall in the rate of profit—perhaps first in this sphere of production, which gradually brings the others to its level—which is, therefore, wholly independent of the will of the capitalist." (*Capital*, Vol. III, p. 310.)

This, then, is the essence of the law of the falling tendency of the rate of profit; on the one hand the introduction of new technique leading to a fall in the rate of profit, on the other hand the desperate efforts of every capitalist to escape from the tendency of the profit rate to fall, the efforts of each to raise his individual rate of profit leading to still further advances in technique and making for capitalism as a whole more certain and more definite the fall in the average rate of profit, " which is . . . wholly independent of the will of the capitalist ".

The Mass and Rate of Profit

The rate of profit tends to fall as the technique of production develops, since improved technique involves usually a greater outlay of capital on machinery and raw materials; in short, the *organic composition of capital* tends to become higher. The division of a typical £100 of capital at three successive dates might, for example, be as follows:

	Constant Capital	*Variable Capital*
1860	50	50
1870	60	40
1880	70	30

Suppose that the rate of surplus value was 100 per cent in each year, then the profit on this £100 of capital would have been 50 per cent in 1860, 40 per cent in 1870 and 30 per cent in 1880. The rate of profit would have fallen. But would the total profits of the capitalist class have fallen also? This by no means follows from the fact that the *rate* of profit has fallen. The total *amount* of profit going to the capitalist class depends not only on the *rate* of profit but also on the amount of capital on which profit is being earned.

Will the amount of capital tend to increase? It has already been pointed out that the laws of survival in the capitalist jungle compel the capitalist to accumulate an ever greater part of the surplus value he extracts from the workers. One of the purposes of his accumulation is re-equipment and improvement of technique so that he may outdo his rivals. Thus the very process which raises the *organic composition of capital* and causes the *rate* of profit to fall, at the same time increases the total *amount* of capital. As a consequence the total *mass* of profit will tend to rise at the same time as the *rate* tends to fall. An example will make the point clear. Total capital in Britain probably increased by about two-thirds between 1893 and 1913 (when it was—at a very rough estimate—about £8,500 million). Suppose that in the earlier year a rate of profit of 12 per cent was earned on £5,000 million and in the latter 10 per cent on £8,500 million, then, despite the fall in the *rate*, the mass of profit would have increased from £600 million to £850 million. (In fact figures for total profits given by national income statisticians—which include profits on overseas investments—show a greater increase; however, available statistics on capital and profits are very inadequate and do not provide sufficient information from which to calculate the true rates of " home-produced " profit.)

Causes Counteracting the Tendency of the Rate of Profit to Fall

Social and economic processes are rich in contradictions and opposing tendencies, and the law of the tendency of the rate of profit to fall is no exception. It does not operate simply and one-sidedly, but in a way that gives rise to opposing, counteracting tendencies. Indeed, if this were not so the vast technical advances of the last century and a half would have led to a falling off in the rate of profit that would be far more obvious than what has in fact occurred. It is because there are " counteracting influences at work, which thwart and annul the effects of the general law ", that Marx was careful not to speak categorically of a falling rate of profit but of a *tendency* for this to happen. The law, he says, becomes " more of a tendency, that is, a law whose absolute enforcement is checked, retarded, weakened, by counteracting influences." (*Capital*, Vol. III, p. 275.) In the understanding of " the law of motion of capitalist society " this tendency of the rate of profit to fall together with the " counteracting influences " provoked by it is of fundamental importance.

The counteracting influences listed by Marx include:

(i) *Raising the intensity of exploitation.* The capitalist in pursuit of higher profit drives his workers the harder and if a lengthening of hours cannot be enforced, seeks the same end by speeding up the rate at which the machinery operates. At the same time improvement in technique leads to an increase in relative surplus value (as assumed in the example given above) and even though

Road,

real wages stay at the same level they tend to fall in relation to the values produced by the worker.

(ii) *Depression of wages below value.* Again and again the capitalists try to fight against falling profits by cutting wages (as in 1921 and 1931).

(iii) *Cheapening of the elements of constant capital.* Increased productivity of labour means that the labour-time embodied in given amounts of raw materials, machinery, and other forms of constant capital falls. Therefore a doubling or trebling (because of improved technique) in the *amount* of cotton, for example, worked up by a textile worker by no means necessarily involves a doubling or trebling of its value, since productivity in the growing and transportation of cotton may well have increased also.

(iv) "*Relative over-population*" (that is more workers than jobs) results from the tendency for variable capital (and, therefore, the number of workers employed) to decrease relatively to constant capital. The "reserve army" of unemployed grows greater; such is the underlying tendency. But the underlying tendency for variable capital to decrease relatively to constant is to some extent counteracted because a plentiful supply of cheap labour retards the introduction of machinery and stimulates luxury trades, for example, in which wages are the main item of costs.

(v) *Foreign trade* and "super-profits" of overseas investments give special advantages to the capitalists of an industrially advanced country (see also Chapter IX on Imperialism). "The favoured country", writes Marx, "recovers more labour in exchange for less labour" (*Capital*, Vol. III, p. 279), the surplus being pocketed by the capitalist class of the "advanced" country (who get good prices for their manufactures and buy raw materials and foods at relatively low prices).

Such, in the main, are the means by which the capitalists fight against the tendency of the rate of profit to fall, such are the contrary tendencies to which it gives rise. It is, however, not hard to see that the counteracting factors must sharpen the contradictions that lead to crisis, that is they must widen the gap between production and consumption. And so when crisis comes and commodities cannot be sold or sell below value, the surplus value produced is not in fact *realised*. Because values produced cannot be turned into their money equivalents, profits come tumbling down; the counteracting tendency is itself counteracted! "The periodical depreciation of the existing capital", writes Marx, "which is one of the immanent means by which the fall in the rate of profit is checked and the accumulation of capital-value through the formation of new capital promoted, disturbs the existing conditions, within which the process of circulation and reproduction of capital takes place, and is therefore accompanied by sudden stagnations and crises in the process of production." (*Capital*, Vol. III, p. 292.)

The Tendency of the Rate of Profit to Fall and the Law of Motion of Capitalist Society

The rate of profit tends to fall because the organic composition of capital (the ratio of *constant* to *variable* capital) tends to increase. This process creates counteracting processes which in themselves sharpen the contradictions of capitalism and cause the crises, by which the capitalist world is from time to time shaken, to become more severe. When times are good, every capitalist who can hastens to operate on a bigger scale, to buy new machinery, to enjoy the advantages of mass production. In short, a basis is laid for improved technique and capitals of higher organic composition. Then comes the slump, which brings the plans of hundreds to nought; but in the slump the capitalists with the biggest resources and the firms with the most advanced technique are the most likely to survive. These strong capitalists use the opportunity of the slump to devour their weaker rivals; many smaller firms either become bankrupt or go out of business or else are bought up and absorbed by the larger firm. In the depression prices are low, and in order to make a profit the capitalists strive to cut down costs by reducing wages and increasing productivity. Each new cycle inaugurates, therefore, a new stage in industrial re-equipment (which leads to a general rise in the organic composition of capital). Each cycle brings also further concentration and centralisation of capital. Capitalist society thus moves forward to a new stage in which there have developed even sharper contradictions between the productive power of industry and the purchasing power of the masses, between private ownership and the social character of production.

It is not, therefore, hard to recognise the profound significance of the law of the falling tendency of the rate of profit in shaping the development of capitalist society. In this tendency and the counteracting forces that it excites, expression is given to the ceaseless struggle by each capitalist concern *individually* to increase its profits, but this very struggle tends *socially* to make the rate of profit fall. This in its turn stimulates efforts to increase profits, and these very efforts magnify still further the factors which cause the rate of profit to fall and sharpen still further the contradictions of capitalism. The individual efforts of the capitalists thus lead collectively to ends which none of them consciously envisaged or aimed for—a falling tendency of the rate of profit, increased concentration and centralisation of capital, and sharpening crisis. Capitalist production moves forward, only to be blocked—again and again—by unseen barriers. "Capitalist production", writes Marx, "is continually engaged in the attempt to overcome these immanent barriers, but it overcomes them only by means which again place barriers in its way in a more formidable size. *The real barrier of capitalist production is capital itself.* It is the fact that capital and its self-expansion appear as the starting and closing point, as the motive and aim of production; that production is merely production for

capital, and not vice versa, the means of production mere means for an ever expanding system of the life process for the benefit of the *society* of producers. The barriers within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperisation of the great mass of producers can alone move, these barriers come continually in collision with the methods of production which capital must employ for its purposes, and which steer straight toward an unrestricted extension of production, toward production for its own self, toward an unconditional development of the productive forces of society. The means, this unconditional development of the productive forces of society, comes continually into conflict with the limited end, the self-expansion of existing capital. Thus, while the capitalist mode of production is one of the historical means by which the material forces of production are developed and the world market required for them created, it is at the same time in continual conflict with this historical task and the conditions of social production corresponding to it." (*Capital,* Vol. III, p. 293.)

The law of the falling tendency of the rate of profit therefore demonstrates why the contradictions of capitalism become ever sharper, why each crisis is succeeded by worse crisis, and why eventually capitalism passes into the period of its general crisis, a period of more severe slumps alternating with booms, a period of vast and persistent waste of productive resources, a period of persistent mass unemployment, a period of wars and revolutions.

Bourgeois Economists on Crisis

"The most varied 'theories' of the crisis are being invented", said Stalin in 1930. "Elaborate schemes for 'mitigating', 'preventing', and 'liquidating' the crisis are being brought forward. The bourgeois oppositions point to the bourgeois Governments, and accuse them of not having taken 'all possible steps' to prevent the crisis. 'Democrats' accuse 'Republicans', 'Republicans' accuse 'Democrats', and both together accuse the Hoover group, with its 'Federal Reserve System', of having failed to keep the crisis 'in check'. There are even wise men who see the cause of the world economic crisis in 'Bolshevik plots'. . . . Of course, all these theories have nothing in common with science. It must be confessed that the bourgeois economists have proved their utter bankruptcy in face of the crisis." (*Leninism,* Vol. II, Allen & Unwin, pp. 311-2.)

The bourgeois economists' attempts to explain capitalist crisis are similar to their handling of many other economic problems; they look at the surface appearance of things and turn what they see into economic theories. The result is a host of quite contradictory doctrines.

In a period of boom credit is expanded and deposits held by the banks increase. If, say the economists, the availability of money was restricted, the boom would be held within bounds and crisis could be prevented. From this aspect of the trade cycle, the

monetary theories of crisis are evolved (such as those of Hawtrey and Irving Fisher).

Others (such as Professors Hayek and Robbins) note that the money available to capitalists is spent on vast expansions of productive resources and when the slump comes many of these expansions are interrupted before they are completed and before they have come to fruition. These economists argue that the crisis is due to *over-investment*, that the expansion schemes were too ambitious and were not matched by savings and cutting down on current consumption on a scale sufficient to finance the vast capital expansion that was started. The remedy proposed is lower wages and higher rates of interest (most palatable medicine for capitalists).

Others note that in boom capitalists are full of hope and dream of selling more and more at ever higher prices, whilst in the slump they are filled with despair and do not believe that industry will ever again be profitable. These phenomena inspire the economists to develop a *psychological* theory of crisis. For psychological reasons, they say, capitalists over-estimate future demand at one stage and under-estimate it at another. This leads to decisions by those who run business which result in boom, then in slump.

When the slump comes, stocks pile up in the factories and in the shops, business comes to a standstill, no one can afford to buy what is produced. So, say the economists (for example, J. A. Hobson and to some extent Keynes), the crisis must be due to *under-consumption*, if people had more to spend then there would be no crisis.

Others (such as Professor W. G. Mitchell) see the cause of crisis in the *rise in costs* that takes place in a boom. This is sometimes put in the form that it is the increase in wages which accompanies a boom that causes the crisis. These, they say, eat into profits and force expansion to stop and give way to recession.

Others again look for the cause of crisis in the uncertainty of harvests and the effect that reductions in the purchasing power of the agricultural communities have on economic activity as a whole. Thus Jevons evolved the famous *sun-spot theory*, which argued that spots on the sun occurring every ten years tended to cause bad harvests which in turn caused general economic crisis.

The detailed criticism of each capitalist theory of crisis would require a volume on its own. Here it must suffice to point out that each grasps at one fraction of the whole truth and builds this into a theory. None see that the cause of crisis is the contradiction in production for profit, namely, in the capitalist mode of production itself.

All the theories, however (although they contradict one another), have one feature in common; they all suggest that crisis is something incidental to capitalism. On the other hand, none of the theories offers a remedy that could in fact eliminate crisis. The exponents of the over-investment theories, for example, advise higher rates of interest and lower wages (so that there may be a better balance

between investment and real savings). These economists aim to slow down the expansion of productive power, but at the same time they wish to reduce the purchasing power of the masses. The contradiction of capitalism remains and, of course, it must remain in any solution that economists of this school produce, since their constant concern is to ensure that production yields a sufficient profit. The economists of the under-consumption school, on the other hand, are against wage reductions and favour low rates of interest and public spending. Their object is to keep up purchasing power. But, in fact, immediately prior to the slump wages always are going up and yet the slump comes. The crisis comes despite the rise in wages because profits and productive capacity are also expanding (and at a greater rate than wages). The theory of under-consumption overlooks the basic fact that capitalist production is production for profit, and that the contradiction between productive capacity and the purchasing power of the masses must continue so long as this is so. The remedy it offers is therefore no remedy at all and—like its opposite, the theory of over-investment—it fails to see that crisis is not something incidental to capitalism but springs from the fundamental contradiction of capitalist productions itself. " The basis . . . of the crisis ", says Stalin, " lies in the contradiction between the social character of production and the capitalist form of appropriation of the results of production. This basic contradiction of capitalism is expressed in the contradiction between the colossal *growth* in the productive capacity of capitalism, calculated to secure the *maximum* of capitalist profit, and the relative reduction of the purchasing power of millions of toilers whose standard of living the capitalists are all the time trying to keep within the limits of the lowest possible *minimum.* In order to win in the game of competition and squeeze out more profits, the capitalists are forced to develop technique, to apply rationalisation, intensify the exploitation of the workers, and raise the productive capacity of their undertakings to the extreme limit. In order not to fall behind one another all the capitalists are obliged, in one way or another, to enter this path of furious development of productive capacities. But the home and foreign markets, the purchasing power of millions of workers and peasants who in the last analysis are the basic purchasers, remain at a low level. Hence crises of over-production." (*Leninism*, Vol. II, Allen & Unwin, 1933, pp. 312-3.)

In crisis all the ruthless destruction, waste, and misery of capitalism find expression. For the workers it means mass unemployment and wage-cuts. For the middle classes, small traders, and professional men, it means bankruptcy and despair. For the colonial peoples, peasants and workers, it means starvation and renewed attacks by their imperialist oppressors. But crisis is also the deathknell of the capitalist class. It inspires the capitalists to brutal attacks on the workers they exploit, to new and more ruthless use of State powers to safeguard the interests and the profits of the most power-

ful clique of big capitalists. Each recurring crisis changes capitalist society, but it also carries the capitalist class nearer to its doom; for crisis not only drives the capitalist class to extreme measures in defence of its profits, it also steels the workers and colonial peoples oppressed by capitalism for the final struggle in which they will destroy capitalism for all time.

CHAPTER IX

IMPERIALISM

Imperialism the highest stage of capitalism—It is the monopoly stage of capitalism of which the essential features are concentration of production and capital, finance capital and "the finance oligarchy", the export of capital, international monopolies and the territorial division of the world—Imperialism combines antagonistic principles (monopoly and competition)—It intensifies the contradictions of capitalism—Uneven development of capitalism in its imperialist stage—Imperialism inevitably leads to war—Imperialism is the last stage of capitalism, it is capitalism "on its deathbed", it is the eve of Socialism.

"ENGLAND became a capitalist country before any other and, in the middle of the nineteenth century, having adopted free trade, claimed to be the 'workshop of the world', the great purveyor of manufactured goods to all countries, which in exchange were to keep her supplied with raw materials. But in the last quarter of the nineteenth century *this* monopoly was already undermined. Other countries protecting themselves by tariff walls had developed into independent capitalist States." (Lenin, *Imperialism,* Chapter IV, L.S.W., Vol. V, p. 56, E.L., Vol. I, p. 688.)

In 1860 England produced over half of the world's coal and pig-iron, and about half of the world's cotton goods. By 1913 her share in world production of each of these commodities had fallen to 22 per cent, 13 per cent, and 23 per cent respectively. Vast new industries had grown up to rival Britain in other countries—in particular Germany and the U.S.A.

During the first three-quarters of the nineteenth century British capitalism had grown apace. Though shaken by economic crises at roughly ten-yearly intervals, it continued, despite the checks that each crisis imposed, to expand with great rapidity and to find ever new markets throughout the world. This was the great era of Free Trade, in which British capitalism could rely on the technical superiority of its industrial production to safeguard its position as the "despot of the world market". The great crisis of 1873 gave unmistakable warning that the days of easy prosperity for British capitalism had come to an end. The contradiction between society's growing power to produce and the restricted purchasing power of the masses had become infinitely more sharp and expressed itself in violent form. Britain's exports, which had between 1847 and 1872 increased fourfold—from £59 million to £256 million—fell between 1872 and 1879 by one-quarter and did not again reach the 1872 level until 1890. Tariff reform, the taxing of foreign goods, trade with the colonies, colonial expansion began to be advocated. Britain under the leadership, in particular, of Joseph Chamberlain began to turn from Free Trade to imperialism. Important economic developments had been taking place; capitalism had entered a new stage—the stage of *imperialism.*

The term *imperialism* is used in political economy to describe a particular *stage in the development of capitalism.* It is quite distinct, therefore, from the colonial empires of the sixteenth and seventeenth centuries (from which the merchant classes accumulated their fortunes whilst capitalism was still in its infancy) or the empires of the ancient world built up on the basis of slavery, such as the empire of Athens or that of Alexander the Great or the empire from which Rome exacted her vast tributes by force of arms. They are all forms of exploitation of weaker nations by stronger nations, or more precisely by the ruling class of stronger nations; they are, however, fundamentally different in so far as the economic basis in each period (namely, ancient slavery, the beginning of capitalism, and latter-day monopoly-capitalism) is completely different.

The first thorough analysis of the imperialist stage of capitalism was made by Lenin in his *Imperialism: the Highest Stage of Capitalism.** Lenin defines imperialism as the monopoly stage of capitalism and picks out the following as its five essential features (*Imperialism*, Chapter VII):

(1) The *concentration of production and capital* develops to such a high stage that it creates monopolies which play a decisive role in economic life.

(2) The *merging of bank capital with industrial capital* and the creation, on the basis of this "finance capital", of a financial oligarchy.

(3) The *export of capital,* which has become extremely important, as distinguished from the export of commodities.

(4) The formation of *international capitalist monopolies* which share the world among themselves.

(5) The completion of the *territorial division* of the whole world among the greatest capitalist Powers.

Concentration of Production

Accumulation of capital always leads to concentration of production and capital. The concentration of production in large units makes possible far-reaching division of labour and specialisation to a degree that is not attainable in smaller factories, reduction in the costs of management, sales organisations, etc., and the use of specialised, costly, and massive machinery that is remunerative only when the scale of production is large. As a rule, therefore, technical advance involves the concentration of production.

There is ample factual evidence of increasing concentration of production in capitalist countries. In Germany, for example, in 1882 22 per cent of the industrial population worked in factories employ-

* In this work Lenin makes considerable use of *Imperialism* by the English economist, J. A. Hobson, "who"—to quote Lenin—"adopts the point of view of bourgeois social reformism and pacifism" but none the less "gives an excellent and comprehensive description of the principal economic and political characteristics of imperialism."

ing fifty or more persons; by 1895 this percentage had risen to 30, by 1907 to 37, and by 1925 to 48. In America firms with over fifty workers already employed in 1909 three out of every four workers, and 16 per cent were employed in firms with 1,000 or more workers. By 1929 the share of the "over 1,000" firms had risen to 24 per cent. Similar concentration of production took place in Japan, France, and Britain. In Britain in 1935 there were in manufacturing industry approximately 250,000 firms; 200,000 of these were small firms employing each less than ten workers and in all 827,000. There were 50,000 firms employing more than ten workers apiece and in all 7,200,000. Half of these "over ten" firms employed only one-ninth of the workers and each had less than fifty workers in its employ. At the other end of the scale there were 2,000 firms employing 55 per cent of all the workers and each having over 500 workers in its employ. At the very peak of the industrial pyramid there were 52 firms together employing one million workers and individually employing more than 10,000 workers each.

Industrial concentration and centralisation of capital under a single ownership does not take place in a smooth and gradual way, but more often spasmodically by fits and starts. In particular, concentration and centralisation are accelerated at each recurrence of capitalist crisis, since the weaker and more backward firms fall by the way and either go out of existence or are absorbed by the stronger and more technically advanced firms. On the other hand the crisis is a stern warning to the firms that survive that they must amass ever more formidable resources if the next crisis is to be weathered. As capital becomes concentrated into bigger units a greater share of profits tends to be accumulated and as a consequence the rate at which concentration proceeds tends to increase.

Concentration of Production Leads to Monopoly

It is easy to see that the largest production units as they develop tend more and more to dominate their competitors in their own branch of industry. In some cases a few firms will have a half or more of the output of a particular type of product. Clearly when this happens the few large firms will, if they get together and pursue a common policy, be able to have things very much their own way. Such co-operation amongst a few giant firms will face the smaller firms with the choice of falling in line with the wishes of the big firms or being forced out of business.

Once the dominance of a few big firms is established in a particular branch of industry, they will be able to fix prices at levels above those that would prevail under conditions of free competition, and thereby reap extra profits. Thus competition gives birth to its opposite—*monopoly*. (The strict meaning of monopoly is "sole seller"; it is rare for the concentration of production to lead to the elimination of all but one supplier of a particular com-

modity. The expression is therefore used in a relative sense to express the tendency in the direction of sole control of the market. The capitalists who individually or working in with other big capitalists are able to exercise such control and to dominate their several branches of industry, fixing prices and allocating production quotas, are, therefore, given the name of *monopoly capitalists.*)

Types of Monopoly

There are many ways in which a group of capitalists or an individual capitalist may succeed in bringing a decisive part of an industry under sufficient control to make possible the allocation of output quotas, price fixing, etc. Such instruments of monopoly include, for example, Trusts, Combines, Cartels, Trade Associations, etc.; where there are legal or other obstacles to open monopoly organisations, the same purpose may be served by Price Agreements, and informal " understandings " and " gentlemen's agreements ".

The most direct and decisive form of monopoly is the domination of a single large firm. The outstanding example is the giant Imperial Chemical Industries Ltd.—I.C.I.—which was formed in 1928 with a capital of £77 million to merge the interests of Brunner Mond, British Dyestuffs, Nobel, and United Alkali. I.C.I. is a compact, solid monopoly running virtually the whole of the British chemical industry, ever expanding its sphere of operations more widely into new branches of industry and new territories overseas. As a matter of convenience, I.C.I. operates through a number of subsidiary companies, which cover particular branches of industry or territories; as a rule these subsidiary companies are wholly owned by I.C.I.

Slightly less compact are *combines* such as Unilever, which controls some hundreds of concerns in the soap and food trade throughout the world. Their interests include, in addition to the manufacturers, the producers of the raw materials at one end and the retailers at the other. The Joint Stock Limited Liability Company which provided capitalism in the days of " free competition " with a means of collecting and concentrating capital, provides in the days of monopoly capitalism an admirable means for the monopoly control of industry. " Ordinary " shareholdings in Limited Liability Companies normally carry voting rights proportionate to the amount of the holding: thus any one holding more than 50 per cent of the shares can exercise absolute control over the policy and administration of a company. In practice a very much smaller shareholding will suffice; small shareholders do not often trouble to attend company meetings and a voting block covering no more than 10 per cent or 15 per cent of the total number of shares may in fact be decisive. The Joint Stock Company provides therefore the means of exercising monopoly control by means of Holding Companies, that is, companies holding shares in a number of other companies.

In this way, an individual or group holding a decisive block of

shares in a " parent company " which holds a majority of the shares in a number of subsidiaries—which in turn hold shares in sub-subsidiaries, etc.—may control industrial wealth which many times exceeds their own personal fortune. For example, Messrs. O. P. and M. J. Van Sweringen were able in the U.S.A. with a capital of 20 million dollars to control eight Class I railroads with combined assets of over 2,000 million dollars. In addition to direct control exercised through share-ownership powerful industrialists are able to extend their control over wide ranges of industry by what are known as *interlocking directorships*, that is, they or " their men " secure appointment as directors of a number of associated companies in which they aim to pursue a unified policy.

Another common form of organisation used by the monopoly capitalists is the *cartel* or group of firms which combine to fix prices, allocate production quotas, and so forth. Clearly this form of monopoly is less stable than the trust or holding company. If violent conflicts occur between the members of the group—and in fact they often do—the cartel agreement is liable to break down. Frequently *trade associations* dominated by a few large firms provide the organisational framework for monopoly.

Monopoly Profits and Prices

The monopoly capitalists can use their power to get for themselves extra profits. One way in which they do this is by keeping the prices of their products high. In earlier chapters it has been explained how, as a result of competition, commodities tend to exchange at their values (or, in developed industrial capitalism—see Chapter VI—at " their prices of production "). The law of value operates through competition. What then happens in the period of monopoly capitalism, when out of competition the opposite of competition, namely, monopoly, has arisen? The monopoly capitalist is able, in conditions which make this course the most profitable, to restrict production and, by reason of the relative scarcity that he can create, to get enhanced prices for the goods he produces. The extent to which he can raise his prices is limited by the fact that, if he puts them too high, sales will fall off (people will either go without or use substitutes) and though he makes a big profit on each commodity he sells, his total profits (that is, profit on each commodity sold multiplied by the number sold) will fall. Market conditions still assert themselves, but the monopoly capitalist (because he has a monopoly) is able to sell above the price of production. He is able therefore to appropriate for himself some extra surplus value. As a consequence the surplus value created by capitalist production as a whole is no longer equally distributed in proportion to the capitals engaged and profits are not equalised (see Chapter VI). Instead an extra profit goes to the monopoly capitalist, and the surplus value that remains to be shared out between the other capitalists is correspondingly reduced. Thus the

monopoly capitalists get their higher rate of profit *at the expense of the non-monopoly capitalists.*

At the same time the monopoly capitalist also makes extra profit at the expense of the worker, the small shopkeeper, and the producers of raw materials (usually " simple commodity " or peasant producers).

Many commodities entering into the everyday consumption of the working-class household (e.g. Flour—Ranks and Spillers; Chocolate—Cadbury-Fry's group; Tobacco—Imperial Tobacco Company; Meat—Union Cold Storage; Soap and Fats—Unilever, and so on) are supplied by " monopolies ". So far as monopolies are able to raise prices of essential consumers' goods the cost of living goes up and *real* wages therefore come down. In this way the share of the working class in the national output may be reduced by the action of the monopolies (and the capitalists' surplus value correspondingly increased). The powerful and highly organised associations of monopoly capitalists confronting the workers, and the mass unemployment prevalent in the period of monopoly capitalism, will exert great pressure to hold down the workers' standard of life.

The shopkeeper can be squeezed by the monopoly cutting down the sales margin allowed to the retailer on the " proprietary " or " branded " goods which the monopoly produces. The monopolists are in a position to penalise the retailer who refuses to observe the conditions they lay down, by cutting off supplies. Clearly a tobacconist, confectioner, or grocer has little chance of making a living if he is debarred from selling the monopolies' products, which are kept in demand by the extensive publicity which the wealthy monopolies undertake.

The monopoly capitalist may enrich himself at the expense of the producers of raw materials (in the main small peasant producers in colonial countries), since he faces them as the sole buyer of their products and forces them to accept the price offered or none at all.

Monopoly and Competition

The emergence of monopoly—the opposite of competition—does not mean the end of competition. On the contrary, competition assumes new and more violent forms, which give rise not only to ruthless trade wars but also to war of arms between the monopoly capitalist powers. " Imperialism ", writes Lenin, " complicates and accentuates the contradictions of capitalism, it ' entangles ' monopoly with free competition, but *it cannot abolish* exchange, the market, competition, crises, etc. Imperialism is capitalism which is withering but not yet withered, dying but not dead. Not pure monopolies, but monopolies in conjunction with exchange, markets, competition, crises—such is the essential feature of imperialism in general. . . . This combination of antagonistic principles, viz., competition and monopoly, is the essence of imperialism, it is this that is making for the final crash, i.e., the Socialist revolution."

(Lenin, *Selected Works*, Vol. VI, p. 110.) In contrast to Lenin, Hilferding and other Social Democrats argued that monopolies lead to "organised capitalism" in which competition and capitalist anarchy are eliminated. Subsequently numerous "right-wing Socialists" have tried—and even today still try—to resurrect this same old theory of "organised capitalism" disguised in one or another new form. But the reality, the actual history of imperialism in the last fifty years, has again and again disproved these theories and proved that Lenin was correct when he said that "imperialism complicates and accentuates the contradictions of capitalism".

Competition in the period of monopoly capitalism continues in the following forms:

(i) Competitive capitalism continues to exist alongside of monopoly capitalism—the monopolies dominate all aspects of economic life but hundreds of thousands of other capitalists still remain; small capitalists are again and again eliminated but again and again new small capitalists spring to life.

(ii) Few monopolies are complete and there is always some threat of an outsider "breaking the ring" (as Deterding's Royal Dutch broke Standard's world monopoly in oil).

(iii) There is acute rivalry between monopoly capitalists themselves; (*a*) between capitalists jockeying for position *within* the same national or international monopoly grouping; (*b*) between monopoly capitalists in different fields of industry struggling to extend their influence at the expense of others.

(iv) Acute rivalry between international groupings of monopolies, seeking to extend their spheres of operation and using the State machine to this end, striving to bring new territories and their governments under their influence, and ultimately to break their rivals by force of arms.

In the period of monopoly capitalism, competition appears in other forms than price-competition, such as advertising and sales campaigns, contracts tying purchasers to one supplier, boycott and semi-racketeering measures. The "peaceful" competition of the market is largely replaced by price wars, the manœuvrings of industrial diplomacy of cartels and international trade associations, manipulation of State policies and ultimately war of arms.

The Extent of Monopoly Control

The following table gives some picture of the extent to which in the twenties and thirties monopoly control had been established in a few typical industries in the main imperialist countries:

U.S.A.	*Year*	*No. of monopolist enterprises taken into account*	*Per cent of the industry controlled*
Oil	1932	1	45-50
Steel	1932	3	60

	Year	No. of monopolist enterprises taken into account	Per cent of the industry controlled
U.S.A.			
Copper	1933	5	98
Aluminium	1928	1	95-100
Automobiles	1933	3	89
Electrical Engineering ...	1923	2	75-80
Great Britain			
Iron and Steel	1934	10	70-75
Aluminium	1928	1	100
Shipbuilding	1926	10	66
Basic Chemicals ...	1928	1	95
Artificial Silk	1930	1	80
Cement	1926	2	60-70
Soap	1926	1	90
Germany			
Steel	1932	5	73
Aluminium	1928	1	80-85
Electrical Engineering ...	1932	2	60-80
Artificial Silk	1930	3	70
France			
Basic Chemicals ...	1928	1	70
Electrical Engineering ...	1931	1	60
Japan			
Cement	1932	2	70
Iron and Steel	1929	3	75

It will be noted from the foregoing table that the dominance of one or two firms is particularly marked in the newer industries (such as aluminium, electrical engineering, artificial silk). These industries developed in an era in which the concentration and centralisation of capital had already reached sufficiently large proportions to meet the vast outlay on plant and equipment that was required. In Germany and U.S.A. industrial capitalism generally found opportunities for development much later than in Britain and at a time when the technical conditions had developed for very large-scale production.

Britain, once the workshop of the world, was surpassed in industrial technique by younger capitalist countries which could apply in brand-new productive plants all the accumulated experience of engineering and science throughout the world. Britain's steelworks and engineering shops, which in the nineteenth century led the world, were relatively antiquated by the twentieth century. In short, capitalism developed with extreme unevenness; now one firm, now another, and now one country and now another, forged ahead of its rivals. A variety of causes, technical, historical, economic, and political, combine to make this unevenness inevitable, and as

industry is more and more concentrated in large undertakings, as more and more comes under the control of a few huge monopolies, and as the capitalist world is more and more dominated by a few industrial giants, the tendency to unevenness in development becomes more pronounced.

Banks and Finance Capital

Industrial concentration is accompanied by the concentration of banking and this gives an added impetus to the growth of monopoly. "The principal and primary function of banks," writes Lenin, "is to serve as an intermediary in making payments. In doing so they transform inactive money capital into active capital, that is into capital producing a profit; they collect all kinds of money revenues and place them at the disposal of the capitalist class." (*Imperialism,* Chapter II, L.S.W., Vol. V, p. 27: E.L. Vol. I, p. 662.) The bigger the bank the less likely is it to succumb to economic disaster; "to him that hath" therefore "shall it be given". The big banks tend to get bigger and to oust the smaller banks. At the same time, as banks get bigger so the revenues they collect (see Chapter VI) reach vast proportions, and the ability to determine how these resources shall be disposed increases their economic power, which in its turn further accelerates the growth of monopoly in banking. In Britain, for example, by 1936 the "Big Five" (Lloyds, Westminster, Midland, Barclays, and National Provincial) controlled three-quarters of all funds deposited in British banks; the domain of these five banks has steadily grown since the beginning of the century when they already held over one-quarter of total deposits. Similarly in U.S.A., Germany, France, and Japan, banking came more and more into the hands of a few big banks.

Once this concentration has taken place the banks acquire a position of exceptional importance and power. "They can . . . first *ascertain exactly* the position of the various capitalists, then *control them,* influence them by restricting or enlarging, facilitating or hindering their credits, and finally they can *entirely determine* their fate, determine their income, deprive them of capital, or, on the other hand, permit them to increase their capital rapidly and to enormous proportions, etc." (L.S.W., Vol. V, p. 31.)

This immense power over industry is not, however, opposed to or separate from the power of the biggest monopolies in industry, since with the growth of huge banking monopolies on the one hand and industrial monopolies on the other, there has taken place a merging or fusing of banking capital with industrial and commercial capital through acquisition of shares and the appointment of industrialists as directors of banks and vice versa. In 1938 there were in Britain 142 directors of the "Big Five" Banks; these 142 directors between them held over 1,000 outside directorships in companies with total capitals exceeding £3,000 million.

The great power of the banks is well illustrated by the case of

Richard Thomas & Co. This firm decided to build a giant strip mill of American pattern at Ebbw Vale in South Wales. This decision was taken in face of opposition from the highly monopolised steel industry which did not like the threat of competition from a new low-cost unit. " Delay was experienced in obtaining the necessary steel for the erection of the plant ", says Mr. Ernest Davies (' *National' Capitalism*, p. 66), " and in some quarters it is believed that deliveries were deliberately held up."

At all events the venture took longer to complete and cost more than was budgeted for at the outset. In the spring of 1938 the firm's credit was exhausted. As a condition for temporary finance the firm had to agree to an inquiry by representatives of the steel industry and in the end the project was permitted to go ahead only on the condition that the company should be put under the control of a committee over which the Governor of the Bank of England presided. At the same time directors of rival steel companies were added to the Board of Directors of Richard Thomas & Co.

The merging of bank and industrial capital has taken place in all imperialist countries. In Germany, and to a considerable extent in U.S.A. also, the banks played a major part in stimulating the growth of large-scale industry and in the building up of monopolies. In Britain, where industrialism had developed earlier and more extensively than elsewhere, the funds for large-scale industry were found to a greater extent from the accumulated profits of the industrial capitalists themselves. However, despite characteristics peculiar to different countries, monopoly capitalism has led in all cases to a similar merging of bank and industrial capital—that is, to *finance capital* described by Lenin as follows: "The concentration of production; the monopoly arising therefrom; the merging or coalescence of banking with industry—this is the history of the rise of finance capital and what gives the term 'finance capital' its content." (Lenin, *Imperialism*, Chapter III, L.S.W., Vol. V, p. 42; E.L., Vol. I, p. 676.)

The Finance Oligarchy

This development of finance capital has produced great changes in the structure and character of the capitalist class and indeed in the whole of capitalist society. A comparatively small clique—numbered at the most in hundreds—have concentrated in their hands control over the greater part of the economic system and dominate all other sections of the population, the working masses, the middle classes, and also the lesser capitalists. This clique—to which Lenin applied the title " Financial Oligarchy "—appropriates to itself immense profits acquired in a variety of ways. " Financial capital," writes Lenin, " concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, State loans, etc., tightens the grip of the financial oligarchies and levies tribute upon the whole of society for

the benefit of the monopolists." (*Selected Works*, Vol. V, p. 47.) In times of boom these giants of industry and finance reap huge profits; in times of slump they are able to extend their domain at the expense of the lesser capitalists, many of whom faii and are forced to sell up their businesses—often to the big monopolists—at ruinous prices.

A great part of British industry lies, as shown above, within the orbit of a hundred or so banker-industrialist directors of the Big Five Banks. In addition to those who control the big Joint Stock Banks there is the powerful clique who control Britain's " merchant banks ",* banking houses such as Lazards, Schroeders, and Hambros, from whose directors for year after year before the war the governing body (" The Court ") of the Bank of England was mainly chosen. The leading figures in these banking houses, these " merchant bankers ", are men with financial and industrial connections throughout the world, not only in the British Empire, but also in Britain's traditional spheres of influence (now rather U.S. spheres of influence) such as South America and the Middle East. Often they are aristocrats or landowners whether of British or foreign descent; always there are close links between the merchant bankers and the leading circles of the Services and the Law; through clubs and family connections they are always closely in touch with the political leaders of the capitalist parties. Such are the dynasties, often inconspicuous and publicly little known, who have concentrated in their hands an immense degree of industrial, financial, and political power, not only in Britain but throughout the British Empire and wherever British money talks.

In Germany the " financial oligarchy ", the powerful groups, the Thyssens, Krupps, and I.G. Farbenindustrie, the big bankers and landowners, used the Nazis to give expression to their policies. In the U.S.A.—despite its anti-monopoly legislation—there is an unparalleled concentration of financial and industrial power.

In the 1920s, 200 companies controlled half of all the non-banking corporate wealth of the U.S.A. and these giant corporations were growing twice and three times as fast as the smaller and less powerful corporations. In 1935, 400 men held between them nearly one-third of the 3,544 directorships of the 200 largest non-banking corporations and the fifty largest in banking and insurance. Eight more or less distinct groups controlled two-thirds of the combined assets of these 250 corporations. The foremost of these groups, the Morgan group associated with the First National Bank of New York, controlled forty-one of the 250 largest corporations, including the American Telephone and Telegraph Co. (said to be the largest private industrial corporation in the world), the Central Railroad Co., the United States Steel Corporation (the largest steel undertaking in the world), also coalmining, copper, electricity, etc., etc.

* So called since they grew up originally on the finance of overseas trade.

The Morgan group controlled about 15 per cent of the corporate wealth of the U.S.A. Three other family groups, Du Pont (chemicals), Mellon (aluminium and electricity), and Rockefeller (oil and the Chase National Bank) had shareholdings of nearly $1,400 million which gave indirect control over fifteen corporations with aggregate assets of over $8,000 million. The Kuhn-Loeb group, with its main interests in railways, controlled some 7 per cent of America's corporate wealth. The war brought further concentration of power in the hands of the finance oligarchy. A report of the U.S. Senate Committee on small businesses states that " wartime business casualties reached alarming proportions. Government figures indicate that there were over one-half million fewer businesses in 1943 than 1941. . . . The war period saw great increases in the concentration of the American economy and startling developments of those monopolistic controls and practices which recent history has shown mean curtailed opportunity for successful independent business ". Already before the Second World War the exhaustive survey of *The Modern Corporation and Private Property* by Berle and Means had concluded that " the rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern State ". In short, a small bunch of industrial potentates hold in their hands the destinies of " democratic " America—the land of free enterprise!

The Export of Capital

" Under the old capitalism ", writes Lenin, " when free competition prevailed, the export of *goods* was the most typical feature. Under modern capitalism, when monopolies prevail, the export of *capital* has become the typical feature." (*Imperialism,* Chapter IV, L.S.W., Vol. V, p. 56; E.L., Vol. I, p. 687.)

As capitalism developed a greater amount and an ever greater proportion of surplus value tended to be accumulated. At the same time this same development tended to bring about a fall in the rate of profit (see Chapter VIII) and so the fields for *profitable* new investment in the home country became more limited. Thus there was a hesitancy to invest at home that gave rise to an apparent superabundance of capital. "It goes without saying", writes Lenin, "that if capitalism could develop agriculture, which today lags far behind industry everywhere, if it could raise the standard of living of the masses, who are everywhere still poverty-stricken and underfed, in spite of the amazing abundance in technical knowledge, there could be no talk of superabundance of capital. This 'argument' the petty-bourgeois critics of capitalism advance on every occasion. But if capitalism did these things it would not be capitalism; for uneven development and wretched conditions of the masses are fundamental and inevitable conditions and premises of this mode of production." (Lenin, *Imperialism,* Chapter IV, L.S.W., Vol. V, pp. 56-7; E.L., Vol. I, p. 688.)

In the course of the nineteenth century manufacturing industry had grown apace in Britain. Britain was "the workshop of the world" and flooded overseas markets with her goods, which, produced in the new steam-powered factories, could sell much more cheaply than the products of other countries. Not only were machine-produced cotton goods from the Lancashire mills ousting the products of more primitive industry, but England had built up a great heavy industry largely engaged on the construction of railways and rolling stock, and sought to use it to supply the whole world. Even in the mid-nineteenth century many overseas railways were financed by British capital, of which in all some £200 million was already invested abroad in the 1880s. By the latter half of the century new industries able to challenge Britain had developed in Germany, America, France, and other countries. The new industries presented formidable rivals in the competition for world markets and threatened to bring to a halt the unfettered industrial expansion that Britain had hitherto enjoyed.

It is not hard to see how these developments sharpened the contradiction between productive capacity on the one hand and the limited consumption of the masses on the other, and upset the old market conditions of "competitive capitalism". The great investments of capital that took place in Britain throughout the first three-quarters of the nineteenth century, the investments which built the industries of Manchester, the Black Country, the Tyne and the Clyde, and so forth, were profitable only because new markets were continually being found overseas. If this had not been so the internal contradictions of British capitalism would have found earlier more violent and more prolonged expression in economic crises than in fact was the case. However, towards the end of the nineteenth century Britain had on the one hand lost her "monopoly of industrial technique" and on the other hand her great banker-industrialists had more funds than ever for which they sought profitable investment. Where could these funds be invested? The great crisis of 1873 and the sharp fall in Britain's exports showed clearly that expansion of British industries involved the serious risk that the additional products could neither be sold at home or abroad. In these circumstances the finance capitalists increasingly exported their capital to colonial and other "undeveloped" countries where capital was scarce, where the native masses were subjected by violent means to the rule of foreign capital and cheap labour was made abundant and where, consequently, the rate of profit was higher than at home. By 1880 British capital invested abroad totalled over £1,000 million against the £200 million in the 1850s, by 1905 it exceeded £2,000 million, and in 1913 it was near on £4,000 million and constituted probably between one-third and one-quarter of the total holdings of the British capitalist class. At that time current foreign investment possibly exceeded the total net investment of capital at home (see M. H. Dobb, *Studies in the Development of Capitalism,* p. 315).

Britain in the years before the First World War was drawing an income of some £200 million from overseas investments, at a time when her total imports were between £480 million and £800 million per annum.

Similar forces were at work within other industrial countries, and by 1914 France had overseas investments totalling about £2,500 million, Germany about £1,750 million, and U.S.A. about £400 million.

The British monopoly capitalists were able to adapt to the purposes of capitalist imperialism the colonial empire from which capitalist traders of an earlier age had enriched themselves. In the early years of this century three-quarters of the foreign capital invested in Asia and Africa was British capital. Colonial territories provide a source of extra or "super-profits" in a number of ways. In *trade* the advanced industrial country is able to exchange "more labour for less"—the products of a few hours' labour-time in home industry are exchanged for the products of many hours in the colonial countries; the terms of trade favour the imperial power. In the *exploitation* of labour extra profits can be earned because, backed by the force of arms, the imperialist power keeps the standards of life, and therefore wages, down to the lowest minimum. For example, copper from the mines of Northern Rhodesia sold in 1937 for £12 million, of which £5½ million went in royalties and dividends (mainly to British interests), whilst the 17,000 Africans employed received only £244,000 in wages (less than £15 per annum each). Even without taking into account taxation, distribution charges, etc., the rate of surplus value was over 2,000 per cent!

The imperialist policy of exporting capital accorded, in addition to a high rate of profit, other advantages; in particular, control of sources of raw materials and orders for capital goods. When British capital was invested abroad it was possible to arrange or stipulate that when the capital invested was spent and converted into commodities, the orders for capital goods should in the main be placed in Britain. (Other imperialist countries, of course, played the same game with their overseas investments, and U.S.A. today, with her "tied loans" and Marshall aid, is still using this old device.)

The export of British capital in addition to providing overseas markets for British goods—and in particular investment goods—supplied Britain with cheap sources of raw materials (such as copper, rubber, jute, cotton, wool, timber, etc.) and foodstuffs. Control of sources of raw materials was in itself an advantage to the British monopolies and at the same time it provided the means by which the colonial and semi-colonial countries in which British capital was invested could pay interest on these investments. This was the basis for Britain's adverse "balance of trade". Regularly Britain imported more than she exported, the balance being accounted for by the interest due to British capitalists on overseas investments, etc. It, therefore, paid the big capitalists to develop over-

seas supplies of raw materials and foodstuffs. It did not pay them to develop British agriculture, which remained backward and short of capital. The poverty of the British farmer and the undue dependence of Britain on overseas supplies accorded with the deliberate policy of British monopoly capitalism; but it did not accord with the real interests of Britain.

As the exportation of capital from the several imperialist countries proceeds, different groups of monopolists concentrate their attentions on particular territories. Naturally this process provokes the sharpest rivalry and rapid reversal of fortunes in favour now of one group, now of another. Since the First World War, and to an even greater extent since the Second, the biggest U.S. monopolists have been able greatly to advance their interests at the expense of the other imperialist powers. Lenin described this process at the time of the First World War as follows: " Finance capital, almost literally, one might say, spreads its net over all countries of the world. Banks founded in the colonies, or their branches, play an important part in these operations. German imperialists look with envy on the ' old ' colonising nations which are ' well established ' in this respect. In 1904, Great Britain had fifty colonial banks with 2,279 branches (in 1910 there were seventy-two banks with 5,449 branches); France had twenty with 136 branches; Holland sixteen with sixty-eight branches; and Germany had a ' mere ' thirteen with seventy branches. The American capitalists, in their turn, are jealous of the English and German; ' In South America ', they complained in 1915, ' five German banks have forty branches and five English banks have seventy branches. . . . England and Germany have invested in Argentina, Brazil, and Uruguay, in the last twenty-five years approximately 4,000 million dollars, and as a result enjoy together 46 per cent of the total trade of these three countries.' The capital exporting countries have divided the world among themselves in the figurative sense of the term. But finance capital has also led to the *actual* division of the world." (*Imperialism*, Chapter IV, L.S.W., Vol. V, p. 60; E.L., Vol. I, pp. 691-2.)

Division of the World Among Capitalist Combines

The characteristic manner in which capitalist monopolies get for themselves extra profits consists in using their monopoly position to restrict production whilst keeping prices at a level that gives an abnormally high margin of profit. It is common practice, therefore, for the few big firms in an industry to control and divide out between themselves the home market for their products. As monopoly capitalism further develops it becomes more and more common for the markets of the *world* to be divided in this way between the most powerful groups of monopoly capitalists. Before the First World War the electrical industry was virtually under the control of two huge trusts, the General Electric Co. of America, and the German A.E.G.; oil was similarly dominated by two

trusts, rail production was controlled by an International Rail-makers' Association, which assigned to the various groups their respective shares in the markets of the world. Explosives were controlled by the International Dynamite Trust (which reappeared after the First World War in the form of the international agreements between giant chemical trusts, I.C.I. in Britain, Du Pont de Nemours in U.S.A., and the German I.G. Farbenindustrie, probably at that time the most powerful international trust in the world). In 1897 there were 40 international cartels, by 1910 the number had increased to 100, and by 1931 to 320.

The capital exported itself creates more capital, seeking profitable new investment, and at the same time narrows the field for such investment. Thus the struggle between the monopoly groupings tends to become more acute as the contradictions of capitalism reproduce themselves on a world scale and the means of even partially and temporarily resolving them become more difficult to find. Under these circumstances the struggle between the capitalist giants becomes desperate as each seeks to preserve for himself profitable fields of investment, sources of raw materials, trade, and other economic rights on privileged terms. They make trial of their strength; they bargain over cartel agreements—which are, as it were, economic peace treaties reflecting the relative strengths of the contestants for the time being. But when the relative strengths of these monopoly groupings change, the stronger elements hasten, as opportunity offers, to make new agreements, to divide out spheres of influence on a new basis more advantageous to themselves. International cartels of monopoly capitalists cannot, therefore, be stable organs of economic planning replacing capitalist anarchy; they are rather the battlefields on which the contesting monopolists manœuvre their forces one against the other prior to the clash of arms. Imperialism in dividing the world does not overcome its contradictions, but sharpens all contradictions.

The Division of the World Among the Great Powers

"The epoch of modern capitalism", writes Lenin, "shows us that certain relations are established between capitalist alliances, *based* on the economic division of the world; while parallel with this fact, and in connection with it, certain relations are established between political alliances, between States, on the basis of the territorial division of the world, of the struggle for colonies, of the 'struggle for economic territory'." In 1876, 10.8 per cent of Africa, 56.8 per cent of Polynesia, and 51.5 per cent of Asia belonged to the European imperialist powers and to the U.S.A.; by 1900 these figures had increased to 90.4 per cent, 98.9 per cent, and 56.6 per cent respectively. By 1900 practically the whole of the world was divided out between the great imperialist powers. There were, of course, a number of countries which in theory were independent, but such countries fell under the dominance of one or other of the

imperialist powers (as, for example, Argentine used to be under the dominance of British capitalism). Undoubtedly, however, the monopoly capitalists reaped the most solid advantages from countries which had been subjected to complete political domination. Here State power could ensure the subjection of the exploited people, preference in trade for the metropolitan power, and a number of other material perquisites. The British State paid the expenses and the capitalists drew the profits. It is not surprising, therefore, that the monopoly capitalists in each of the great industrial countries urged on their own governments in the scramble to annex colonial territories. The world was divided *politically*. This division was achieved " by fire and the sword ". Redivision can only come about as the result of tremendous clashes between the great powers.

Uneven Development of Capitalism in its Imperialist Stage

It has already been pointed out that development in capitalism as between one firm and another tends to be very uneven. Now one is ahead and prospering, now another. This unevenness marks also the development in the economic fortunes of whole countries. Now one country leaps forward, now another. Moreover, as industry is more and more concentrated in large-scale monopoly undertakings, the unevenness of development becomes more pronounced. How quickly, for example, did the new iron and steel industry of Germany and U.S.A. outstrip Britain, the home of modern industrialism? In 1880 Britain's output of pig-iron was 7.7 million tons against Germany's 2.5 million and U.S.A. 3.8 million; by 1913 Britain's output had risen to 10.3 million tons, but Germany's had risen to 19.3 million and U.S.A. to 31 million. In steel production (then a relatively new industry) the relative differences in the rate of development were even more striking.

As the relative strengths of the great imperialist powers and of the main groupings of monopoly capitalists within the international combines and cartels change, there develops a lack of balance, a lack of correspondence between the political influence of the great powers, as measured, for example, by colonial territories controlled, and their economic strengths. Naturally the economically strong but politically less favoured powers will be under special pressure from their monopoly capitalists to follow an aggressive policy and to turn their economic strength into military strength—a process which is in itself most profitable for the monopoly capitalists who receive large orders for armaments. Ultimately the antagonisms between the imperialists are resolved by war. Indeed, how else could the redivision of the world be settled? " Is there ", says Lenin, " *under capitalism,* any means of removing the disparity between the development of productive forces and the accumulation of capital on the one side, and the division of colonies and ' spheres of influence ' for finance capital on the other side—other than by

resorting to war? " (*Imperialism*, Chapter VII, L.S.W., Vol. V, p. 90; E.L., Vol. I, pp. 716-7.)

Monopoly Capitalism Leads to War

Capitalism in its imperialist stage inevitably* tends to war. The economic laws of monopoly capitalism make expansion—new markets, new fields for investment, new spheres of influence—an ever more pressing necessity; in a world already divided out between the great powers such expansion can only be obtained by attempting a *redivision* of the world and that means war. To remove the danger of war it is necessary to remove the cause of war, and the cause of war is monopoly capitalism.

Imperialism—" Moribund Capitalism "

Imperialism is a stage of capitalism, a stage in which capitalism is rotten with decay. Vast productive resources have been developed but monopoly capitalism is unable to use them to the full. While competition between the big trusts and the aim of saving labour costs leads to big technical developments, a trust whose position at the moment is secure will tend to hold back new technical developments—to buy up patents and lock them up instead of using them—so long as the continued use of old plant offers secure profits. The owner of capital is more and more divorced from the productive processes in which his capital is invested. There develops a class " of bondholders (rentiers), i.e., people who live by ' clipping coupons ', who take no part whatever in production, whose profession is idleness ". (*Imperialism*, Chapter VIII, L.S.W., Vol. V, p. 92; E.L., Vol. I, p. 717.) Huge sums are paid annually to the imperialist countries by the colonies and subject nations to which they have exported capital. (Britain's income from foreign investment was £176 million in 1912 and £250 million in 1929.) The great imperialist powers thus become States that in large measure live by drawing dividends—rentier States parasitically living off the labour of other peoples. This cannot but have deep social consequences. " The rentier State ", writes Lenin, " is a State of parasitic, decaying capitalism, and this circumstance cannot fail to influence all the social-political conditions of the countries affected generally and the two fundamental trends in the working-class movement in particular." (*Imperialism*, Chapter VIII.) A section of the working class—an upper stratum that is sometimes described as the *labour aristocracy*—shares to a substantial extent in the fruits of imperialism and tends therefore to identify its interests with those of the capitalist class. Imperialist exploitation provides in this way the

* Although smaller wars are going on all the time, the *inevitable* association of imperialism and war does not mean that world war at the present stage cannot be held in check by peace forces based upon the world-wide strength of the working class, the new democracies, and the U.S.S.R. At the same time peace is never *secure* as long as imperialism continues in existence.

economic basis of the opportunist right-wing trend in the Labour movement for whose political influence the working class has had to pay a very heavy price.

For the masses of the people throughout the world imperialism has meant starvation, political oppression, and war. The workers in the imperialist countries have seen the cost of living soar; they have experienced continuous mass unemployment, and all the economic chaos to which the " entangling " of monopoly with free competition in the capitalist world must give rise. They have suffered, too, the death, destruction, and chaos of war—war to bring colonial peoples into subjection, war between rival imperialist powers. And to them imperialism has given nothing. The rivalries of the great imperialist powers have forced the monopoly capitalists to seek from the workers an ever greater surplus out of which to arm themselves for their struggle against their rivals, profits out of which to accumulate more and more capital, profits out of which to pay incomes to all the coupon-clippers and other parasitic hangers-on of imperialism, profits out of which to organise their trade wars and battles for markets, profits out of which to maintain their vast organisations for subjecting the workers and undermining the workers' organisations (press campaigns, blacklisting, spying, etc.), profits out of which to build up reserves of wealth that can quickly be mobilised for such purposes as their wars against the workers, the colonial peoples and their rivals may at any time dictate. All these profits they must exact from the toil of the workers they employ. The monopoly capitalists themselves are, of course, anxious to disguise the true consequences of imperialism for the workers. They spread the illusion that the big monopolies make things better for the workers. It is, in fact, true that the wages paid by the monopolies may be sometimes higher than those paid by the smaller capitalists (who, as we have already seen, are put into difficulties and deprived of surplus value by the monopoly policy pursued by the big capitalists). However, what the monopolies fail to point out is that the output per worker in their undertakings is higher, and their stop-watch methods and highly organised technique for getting the last ounce of effort out of their workers (" scientific management of labour ") increase the intensity of the workers' labour and greatly raise the ratio of labour-time to paid labour-time. In short, the exploitation of the workers greatly increases in the period of monopoly capitalism in the metropolitan country as well as in the colonies.

For the colonial peoples imperialism has meant adding to their old exploiters (the semi-feudal landowners or princes, usurers and tax-collectors) the new burden of foreign oppression. It has meant also the ruthless breaking up of their old ways of life; it has meant military occupation and new heavy taxation. It has meant also, for those forced to work for foreign capital, direct exploitation of the most brutal kind; in India, for example, wages in

the Assam tea-gardens of 2s. 8d. a week for men, 2s. for women, and 1s. 5½d. for children (in the 1930s); in the Indian jute industry as a whole (in the early 1920s) profits of £100 a year a worker and yearly wages a worker of £12 10s.; in Malaya in 1922 wages for tin miners of 8½d. a day (profits £100 a ton).

Imperialism also means war and preparations for war; it means armies with which to subdue the colonial peoples, and armies with which to do battle with imperialist rivals. This ever-present weight of military expenditure in the epoch of imperialism falls on the backs of the workers and the masses of people. They too bear the havoc and destruction of war.

Imperialism, however, is capitalism " on its deathbed " (dying—but not dead). Imperialism is the highest and the last stage in the development of capitalism. Capital in the advanced countries has outgrown the boundaries of national States and it has established monopoly in place of competition. There have developed throughout the world " all the objective prerequisites for the achievement of Socialism " (Lenin). The productive resources that imperialism creates, it is unable to use; the social relations of monopoly capitalism act as fetters on the development of production. The contradictions of capitalism express themselves in the most acute, heightened forms. The whole imperialist world is torn by violent conflicts. To the antagonism between capitalist and worker within each country there are added the antagonism between the imperialist powers themselves, and the antagonism between each imperialist power and the colonial and backward peoples subject to its rule. In the conflicts between these antagonistic forces, capitalism will meet its doom. The victory of Socialism in Russia marked the beginning of the death-process of the old capitalist order and the dawn of the epoch of Socialism.

CHAPTER X

THE NATIONAL PRODUCT AND ITS DISTRIBUTION

Production defined—Productive and non-productive occupations—The amount of surplus value and where it goes—Marxist and bourgeois views on the national income—Company finance and the study of how surplus value is passed on from the point of production where it is produced—The huge superstructure of capitalism which the workers bear on their backs.

THE size of the national product depends upon the number of workers *productively* employed, "the annual labour of the nation" which Adam Smith in the opening words of his *Wealth of Nations* described as "the fund which originally supplies it with all the necessaries and conveniences of life". In the imperialist stage of capitalism mass unemployment, reaching extreme heights in times of slump, ravages the productive labour force. The national product is accordingly reduced and, moreover, rises and falls with the cycle of boom and slump. On this account there is immense waste of productive forces. The size of the national product also depends on the productivity of labour which, though hampered and fettered by monopoly capitalism, still tends to increase but at a rate far below that which Socialism will achieve.

As a result of capitalist accumulation a substantial part of the "annual labour" of society is in periods of "recovery" and boom devoted to the production of new means of production and the construction of new and more productive plants. In periods of slump, however, productive capacity is only partly used and unemployment becomes particularly heavy in industries producing means of production ("Department I"). Output per head may go up as a result of work being concentrated in the more efficient plants but at the same time under-use of capacity causes tremendous waste. The statistical study of the *changes* in the national product and its distribution, and of the character and consequences of capitalist accumulation cannot here be made, and this chapter concentrates accordingly on how the national income is determined in one particular year and how the surplus above the wages of the productive workers is divided amongst other sections of the population.

In 1931 the population of Great Britain was 45 million. Of these just over 21 million were "occupied". The remainder—the "unoccupied"—included housewives (very much occupied but not engaged in the production of commodities), children and old people, and the "idle rich"; however, the "idle poor"—those who wanted to be occupied but could not find work—are counted by the statisticians amongst the occupied. The following table analyses the various kinds of people described as occupied:

(*Figures in thousands*)

	Males	*Females*	*Total*	*Per cent of total*
1. Managerial ...	1,029	152	1,180	5.5
2. Working on own account ...	922	351	1,273	6.0
3. Clerical, Commercial, and professional ...	2,207	1,491	3,698	17.3
4. Agriculture and fishing (operatives)	892	44	936	4.4
5. Other manual workers (inc. Armed Forces)	8,035	3,678	11,713	54.9
6. Unemployed ...	1,968	557	2,525	11.8
	15,053	6,273	21,326	100.0

Productive Workers

All these people, including the " unoccupied ", of course, consume food, clothing, housing, in short the bare means of living. Many of them also smoke, drink, read books, and so on. Some of them also have luxuries such as motor cars, refrigerators, silks and satins, and so forth. All these goods which provide the bare means of living and the means of luxurious living are the products of human labour, but only a part of the community actually expend their labour on their production. In a developed capitalist country such as Britain the means of life are practically all produced in the form of commodities. Commodity production, however, is but a particular historical form of the general activity of production on which the life of all human societies is founded. " The fact ", says Marx, " that the production of use-values, or goods, is carried on under the control of a capitalist and on his behalf, does not alter the general character of that production." (*Capital,* Vol. I, p. 156.)

"Productive work" is not identical with socially useful work. Moreover the "social usefulness" of work is highly equivocal. What is socially useful to the capitalists or to their order of things, may be quite the opposite for the masses of the people and the socialist order of things. Furthermore, though rich idlers are neither productive nor socially useful to the workers, there are people such as doctors, teachers, nurses, writers, and the like who are "socially useful" to them but must none the less be classed (as we shall see) as unproductive workers. In short "productive work" is not the same as "socially useful work", nor is "unproductive work" the same as "socially useless work".

Productive* work is work in the sphere of material production, that is, the direct harnessing by man of the goods of nature, "a process in which both man and nature participate, and in which man of his own accord starts, regulates, and controls the material reactions between himself and nature". (*Capital,* Vol. I, p. 158.) The distinction between productive and non-productive work is not the same as that between manual and intellectual work. Brain work which forms part of the collective harnessing of the goods of nature is productive work. Productive work is not distinguished from unproductive by the fact that it becomes embodied in material objects; there are kinds of work which do not directly produce objects but which are certainly kinds of productive work and are used in the sphere of material production—for example, transport, communication, signals, etc. These are kinds of work in which man influences the surrounding nature; it is therefore productive work, although it does not create separate objects. The distinction between productive and non-productive work is not then drawn according to mechanical objective criteria nor according to a mechanical division between intellectual and manual work, but according to a dialectical criterion, namely the relationship in which man stands to nature. According to this criterion industry is clearly a branch of material production, as also are agriculture, building, transport, and communications generally. On the other hand, the fighting services, the police, the civil and local government services, health services, education, finance, culture, science, and so on are clearly not in any direct sense branches of material production. However, within the specific production relations of capitalism, namely commodity production for profit, the distinguishing mark of productive labour becomes the fact of producing values and, more particularly, surplus values.

Classification of Productive and Non-Productive Occupations in Britain

The population of a capitalist country such as Britain may be grouped broadly as follows:

A. Productive workers, that is, commodity producers or producers of values, comprising:

1. Producers of surplus value, namely workers employed in capitalist enterprises who produce values over and above the value of their own labour-power. These and their families live on the wages they earn, that is, the values they get by selling their labour-power.
2. Independent producers, such as self-employed workers, "workers on own account", producing goods for exchange (commodities), but not employing wage-workers, and not themselves working for wages. These live by exchanging the values they themselves produce

* The definition here given is largely drawn from a speech made by H. Minc in Poland in February 1948.

(but in practice are often subject to indirect forms of exploitation and must surrender some of the values they produce in taxes, rent, etc.).

B. All others who directly or indirectly live out of the surplus values created by workers in Group A.

Clearly the bulk of Group A are to be found in item 5, in the table on page 156, that is, manual workers, but not all those under item 5 are productive workers; for example, the armed forces are not productive workers and produce no values. All under item 4 are productive workers and some in item 2 (not *traders* working on their own account, but farmers, small craftsmen, etc.). Also in item 1, managers and technicians who actually take part in the day-to-day running and organisation of production are to be classed as producers in the sense defined above.

A rough estimate of the number of workers in Group A may be made: 5,818,000 wage-earners were employed in industry and manufacture, 936,000 in agriculture and fishing, 1,533,000 in transport, etc. All these workers—a total of 8,287,000—are productive workers who produce surplus value. There were also just under 500,000 " workers on own account ". Further, working farmers, productively active managers and technicians, and persons doing productive jobs in the field of commerce (such as packers) should be included, giving a grand total of between 9 and 9½ million " productive workers ", which is less than half the occupied population and less than one-quarter of the total population.

The bulk of those who come in Group B, that is those who get their living out of surplus value, are made up as follows: 1½ million domestic servants, in the main serving the personal needs of the wealthier classes; also 1¼ million workers and almost 400,000 " managerial " personnel in distribution, commerce, and finance, and the rest of capitalism's elaborate machinery for profit-making, speculative buying and selling, company flotation, competitive advertising and so forth. Then there are the armed forces and the unemployed, all those who would work if they were given the work, the great army of the involuntarily idle which capitalism musters. There are also the national and local government employees (other than those doing productive work), doctors, teachers and other professional workers, pensioners, etc. And last, but not least, there are the idlers who live on unearned incomes, the rentiers and coupon clippers, and the sons of the rich who draw handsome salaries for doing little or nothing. Thus in capitalism, in addition to the young and infirm for whom any society must provide, there stands on the backs of the workers a host of intruders, parasites, or unwilling instruments of parasites, a host of people who take from the national income but contribute nothing to it or to national well-being.

The Sources of Personal Incomes

Where do these various kinds of people get their incomes from? The worker who produces surplus value, as has been explained

already, gets his income by selling labour-power to the capitalist for wages. This he is compelled to do by economic necessity since he does not own the means of production, and, having no commodity to sell but his labour-power, he only has the choice of working for the capitalist or starving. For his labour he gets broadly speaking the value of the means of subsistence, the actual level of wages depending on historical conditions, the current economic situation and the organised strength of the labour movement. In the U.K. before the war (1937) the sum total of wages paid to workers producing values in agriculture and industry was approximately £1,400 million (£1,150 million after taxation) whereas the values produced by these workers were approximately £4,000 million.* From these figures the over-all rate of surplus value in British industry can be estimated. Necessarily, the estimate is only a rough one but it certainly gives a broadly accurate picture. The total value of a commodity, as has been explained in earlier chapters, may be expressed by the formula

$$c + v + s = C$$

where c = constant capital, that is. the "dead labour" embodied in the raw materials, machinery, etc., used up in production, v = wages, s = surplus value, and C = total value of the commodity. In estimating the rate of surplus value one need only be concerned with the new values added by the living labour (that is, v + s). Statistics available for *net* output from which the figure given above at £4,000 million is derived, correspond roughly to v + s for all industry; that is, the net output represents the total new values created in the course of the year and omits the "old values" embodied in raw materials, etc. (constant capital). The total surplus value therefore equalled total new values (£4,000 million) minus wages of the workers who produced these values (£1,400 million).† Therefore

* A precise estimate of the new values produced annually by capitalist industry and agriculture is not easy, but as a round figure this estimate is certainly not far wrong. It is somewhat less than Dr. Barna's estimate for net national output, that is £4,146 million, which includes values produced by workers "on own account" and similar non-capitalist production which is not extensive in Britain. On the other hand, the net output of transport, mining, agriculture, building, and industry estimated from the *prices received by the producers* as a little over £2,600 million, to which figure it is reasonable to add 50 per cent (making over £3,900 million in all) for commercial costs and profits; whilst commercial costs and profits vary considerably in different branches of industry, it is certainly not unreasonable to estimate final selling prices of most commodities as 50 per cent above "factory-gate" prices. This 50 per cent addition that is suggested above means that two-thirds of the final price goes to the "producers" and one-third to the "traders"; in the case of a bar of milk chocolate, for example, the final price is made up as follows: raw materials 34 per cent, production costs 21 per cent, selling and advertising 8 per cent, transport 4 per cent, wholesaling and retailing charges 33 per cent.

† No good statistics are, however, available for estimating what allowances should be made for maintenance of machinery, etc., but any shortcomings in this respect would not cause an error of more than 5 per cent. For the purpose of this rough estimate we disregard taxation; rate of surplus value would be somewhat higher if we took it into account.

the total of surplus value was £2,600 million and the division of the total social product was thus:

Wages	Surplus
£1,400 million	£2,600 million

And roughly speaking the division of the average working day was this:

Paid	Unpaid
One-Third	Two-Thirds

This "one-third: two-thirds" division probably underestimates the share of surplus value since no account has been taken of the wastefulness of capitalism, for example machines produced and never fully used, components manufactured and then scrapped because they do not find a market, raw materials and food produced and then allowed to deteriorate or destroyed in order to keep up prices. Waste such as this was a common occurrence in pre-war capitalism and though not always as conspicuous as during the 1931 crisis is constantly recurring today. All this waste is waste of values produced by the workers' labour.

Wage-earners directly engaged in production (that is, industrial workers, transport workers, agricultural workers, etc.) form the bulk of what is normally described as the "working class"; it is these workers who are most highly organised in trade unions and form the backbone of the labour movement. They produce the commodities consumed not only by themselves but by the rest of the community as well. In what way do other groups of the community who buy these commodities receive their incomes?

First, how should the other "income-receivers" be grouped? It takes all kinds to make a world and there will be many people (such as fortune-tellers or tipsters) who do not fit easily into any economic category, and a lot of time might be wasted in arguing about them—to little purpose since they take only a very small fraction of the nation's income. There also will be people who belong to several groups at the same time. However, bearing these points in mind, one may divide the community in Britain today into the following broad groups:

1. Wage-Workers who produce values and surplus values (productive workers who produce the annual social product).
2. "Workers on own account."
3. (*a*) Unemployed, etc.
   (*b*) Pensioners.
4. Armed Forces, Police, etc.
5. Civil Servants, Local Government Officers, etc.
6. Nurses, Doctors, Teachers, etc.
7. Clerical and distributive workers, etc., engaged in commerce and finance.

8. Capitalists and Landlords.
   (*a*) " Working " capitalists, company directors, etc.
   (*b*) Recipients of unearned income, i.e. rent, interest, and profit.
   (*c*) Recipients of interest on the National Debt.
9. Various professional workers and higher range salary earners.
10. Domestic workers, etc.

No more need be said about Group 1.

"Workers on own account", if they are engaged in production for exchange (for example, cobblers) are, of course, producing values, but they are not subject to direct capitalist exploitation. None the less, squeezed out of business by big capitalist undertakings, their lot is normally one of poverty and uncertainty. In Britain, however, these small men, such as individual craftsmen and working farmers (simple commodity producers) are not numerous. They get their living from the values they produce which, in view of their backward technique, are anyhow low, but are further reduced by the weakness of their economic position, taxes, rates and so forth. (In Britain the proportion of "simple commodity producers" is exceptionally low. In the world as a whole "simple commodity producers" in the form of impoverished and oppressed peasantry constitute the vast majority of those engaged in production. The position of the peasantry and the indirect forms of exploitation to which they are subjected were dealt with in Chapter VII.)

Every one in Groups 3, 4, 5, and 6 (apart from a comparatively small number of private teachers and private doctors, etc.) gets his or her income from the State or other public body; Local Authorities are for present purposes considered as included in " the State ", and rates as a form of taxation. The State, in the main, gets its money by taxation. Taxation may be *direct*, namely, a direct deduction from incomes such as Income Tax, or *indirect*, that is, a tax which is added to the purchase price of commodities, such as the tax on tobacco which is paid indirectly by the consumer in the enhanced price, comprising the customs or excise duty which the importer or manufacturer has to pay to the State. Payments made by the State for unemployment and health benefits, pensions, etc., might be properly regarded as deferred wages since they are largely financed by contributions which come out of wages. Since, however, these contributions are compulsory, for present purposes they may be regarded as a special form of taxation. It must be emphasised that different methods and forms of taxation have important social and economic consequences (for example, indirect taxation falls most heavily on the lower income groups); however, it is not proposed here to go into the details of State finance and the budget, but to point only to the broad fact that the funds raised by the State are by one means or another lopped off wages, salaries, and profits. All this money raised by the State is in effect surplus value, appropriated by the State to maintain capitalist rule. In a capitalist society

the whole machinery of Government and administration is subordinated to the interests of the capitalist class. State expenditure is, therefore, unceasingly the battleground of class interests, the desire of the capitalist class being to use State finance to strengthen their domination, to facilitate means of increasing profits and impose exactions that hit the masses of the people. The working class on the other hand fight for the improvement of social services, against State expenditures to buttress up the capitalist class, and for lightening the burden of taxation falling on the masses of the people. In short, a battle of the classes is unceasingly waged over methods used by the State to " appropriate surplus value " and the use to which the State's revenue is put.

Interest on National Debt (8*c*), is of course, just as much surplus value as interest paid by one capitalist to another, but it makes its way into the hands of the capitalist by a peculiar route. The State collects this surplus value in the form of taxation on the community and then hands it out to the " owners " of the National Debt as a company hands out interest on loans it has received. There is, however, an important difference between the State and a company engaged in production, in that the latter pays interest out of surplus values created by the workers in the undertakings in which the borrowed capital is used, whereas the State appropriates surplus values created elsewhere with other capital than that borrowed by the State.

It is sometimes thought that the interest on National Debt does not go to the capitalists but to small men owning War Loans, etc. This is not the case. For example, in 1937* only 13½ per cent of the interest went to persons with incomes under £250 a year. Almost half the interest went to holding companies, banks, and other financial institutions.

The total payment in interest on the National Debt is very great. Before the war it was already over £200 million. In 1947 it was approximately £550 million and now that compensation is being paid for the nationalisation of mines, transport, Bank of England, steel, power, etc., its magnitude and economic significance as a means of distributing surplus value is becoming still greater.

Dr. Barna has made some interesting calculations which indicate broadly the distribution of taxes between classes in 1937. In all, £1,157 million was collected in taxation, direct and indirect; £472 million was paid on rent, profits, and interest, representing 34 per cent of the total of incomes received in this form, £309 million on wages (18 per cent on total wages), £234 million on salaries (22 per cent of total salaries). The balance of £142 million cannot be clearly allocated. After the Second World War, in addition to the huge weight of indirect taxation borne by them, a greater number of workers have had to pay direct income taxes and direct contribu-

* Details are given in *Redistribution of Incomes* by T. Barna, Clarendon Press, 1945, pp. 83, 193.

tions to social insurance schemes. In this connection Callaghan in *The British Way to Socialism* says: "The view of the present writer based on such figures as are available, is that in 1947-48 the lower income groups financed the social security schemes through their direct and indirect tax payments. . . . If this is so then the traditional Tory cry that 'the rich are being taxed out of existence' in order to provide social services for the workers is no longer true. . . . The cost is broadly met from within the working class themselves; they are beholden to no one, least of all the rich." (pp. 139-140.)

Those who are engaged in finance and commerce (Group 7) are paid by the capitalists who employ them. They include several different kinds of people such as (i) shop-assistants behind the counter; (ii) clerical workers in commercial houses, insurance companies, banks, etc.; and (iii) professional men such as lawyers, chartered accountants, etc. It is quite clear that the last two types of people play no part in the production of commodities. They are merely "overheads" of the capitalist system, that is, people who are occupied only in enabling the capitalists to realise the values created in the undertakings of the "productive capitalists". The shop-assistants' activities cannot be classified quite so sharply. The shop-assistant's main job is salesmanship and taking the money—activities which have nothing to do with the production of values but merely with the realisation of values. A shop-assistant has, however, also some jobs which are "a continuation of production in the sphere of distribution". A commodity's use-value comprises being in the right place and right condition; butter storing, mixing, packing, and delivery are, for example, productive activities carried out to this end by the grocer's assistant. (There are, vice versa, a number of activities in a productive undertaking concerned only with the process of selling.)

Despite exceptions, distributive and clerical workers in a modern *capitalist* society do not, broadly speaking, produce values. They are not "productive workers", do not produce any surplus value; their incomes must therefore come out of the surplus value produced by others. Strictly speaking, they are not exploited in the same way as, for example, the factory worker. The difference is—so far as these workers are concerned—theoretical rather than real. They are all paid by capitalists who see their wages as costs eating into profits. The lot of the distributive or clerical worker is the same as (or worse than) that of the industrial worker. The laws which determine the level of the productive worker's wages apply equally to the commercial worker, but the reason for which the capitalist seeks to cut the commercial worker's wages and lengthen his hours is not in order to get more values produced for nothing but in order to cut down commercial and distributive costs and thereby (in the manner explained in Chapter VI) to get bigger profits out of the margin between the selling price and what the industrial capitalist gets.

The incomes of this group (though some of them are "wage-

earners ") are in the main included in what national statistics describe as salaries.* (£1,066 million in 1937.)

However, in addition to shop assistants and clerks and other people with low incomes this group includes highly paid executives, often " placed " by influential relatives and friends and getting " more than they are worth " by virtue of nothing but their loyalty to or connection with the capitalist class.

Group 8—the capitalists proper—receive surplus value in its well-recognised forms of rent, interest, and profit. However, company directors and " working " capitalists are included here because, particularly in these days of vast limited liability companies, a substantial amount of surplus value is expropriated in the form of inflated salaries and excessive " expenses " paid to men who have placed themselves and their friends in key positions. In so far as these people really contribute to the organisation and carrying out of production, what they receive is not surplus value; but it is common to find in the large-scale organisations of modern capitalism a hierarchy of highly paid people superimposed on the working managers who receive relatively modest incomes. For example, it is not uncommon for a big capitalist to hold several directorships each at about £1,000 a year, for which he does no more than attend a monthly meeting. It should also be pointed out that these big capitalists, who play a part in the control of company policy and are " in the know ", are exceptionally well placed to collar big extra profits by buying and selling shares and doing other deals in capital —profits made at the expense of the small " dormant " and inactive capitalists. Thus this group may be said to be divided into three sub-groups (which, of course, overlap); the inner ring of big capitalists, the smaller " working " capitalists, and the idle, parasitic recipients of unearned incomes who sit back and wait for their dividends to come in—the " *rentiers* " and " *coupon-clippers* ".

We have here lumped rent and profits together. As explained in Chapter VII, there is economically an important difference between rent and other forms of surplus value. A hundred years and more ago there were also clear divisions and distinctions between the landlord class and the industrial capitalist class; however, in Britain today (though in many other countries the distinction remains) the two classes have very largely merged and no significant distinction can be drawn.

Group 9 comprises a miscellaneous set of people who are not easily fitted into hard and fast economic categories. To some extent this group merges with the professional people in Group 7; however, almost all will be non-productive workers.

This miscellaneous group also includes activities which might be classed as small-scale commodity production, activities which could be said to be " wage-labour " used by a productive capitalist, and

* The normal distinction between salaries and wages is that the term of engagement is for one week or more in respect of salaried employees, while wages are paid by the hour.

activities which are concerned only with the realisation of surplus values. Sometimes all three types of activity will be carried out by one and the same person, such as an architect, who builds a house for a client, gives an industrialist advice on the building, maintenance, etc., of his factories in return for an annual fee or " wage ", and advises a capitalist about the structural soundness of property he proposes to buy as an investment.

As a rough generalisation it is fair to assume that in the main this miscellaneous group receives incomes out of surplus value and does not produce values; but in all the members of this group constitute less than 1 per cent of those who receive incomes and the way in which they are classified will not alter the broad picture of Britain's economic structure with which we are primarily concerned.

Privately employed domestic workers, etc. (Group 10), are primarily employed by the capitalist class and people with salaries in the higher ranges. Their wages are simply incomes transferred to them in order that work, not to produce commodities but directly to satisfy the wants and whims of the well-to-do, may be carried out. It is, obviously, a too sweeping generalisation to say that all domestic employment is socially unnecessary; but equally it is certain that a vast amount of manpower has been wasted on drudging work, pandering to the wants of the wealthy. In 1931 there were in Britain one and a half million indoor domestic wage-workers. The worker's wife or family who do domestic work looking after the worker and his household, of course, consume a part of what the worker receives as wages, but they do not themselves produce commodities and do not therefore add to the *social* product, that is, the sum total of values that make up the "National Income".

National Income: Marxist and Bourgeois Views

Adam Smith (1723-1790), whose work laid the basis for a truly scientific study of political economy, set himself the task of inquiring into the "Nature and Causes of the Wealth of Nations", or, as one might say, using modern terms, he sought to explain what the national income is and what determines its amount. Adam Smith approached this question armed with a labour theory of value, the significance of which for his inquiry is clear from the very first sentence of his book (which is quoted at the head of this chapter). Marxist economic theory, taking the labour theory of value as its foundation, has elaborated a full and scientific picture of capitalism and the laws of its development which makes possible a clearer understanding of the "nature and causes" of the national income.

The national income is the sum of newly produced commodities, the total net social product, the new values created in a given period of time, say, a year.

A nation's income can only be what it produces.* The precise

* Leaving aside payments from abroad, such as surplus value from capital invested abroad.

meaning of production has been discussed above (p. 157). A nation's annual income must be taken as equal to the *net* product within a year. Factories and other productive undertakings buy raw materials, semi-finished goods, etc.—all the components of *constant capital*—to which new value is added by the productive process, that is, the expenditure of labour in production. The finished products of some undertakings will become the materials of others (as bricks from the brick company become the materials of the builder). The national income is, therefore, not the total of gross products of each productive undertaking but the total of the *new* values added, the *net* products of each undertaking. The gross product of each undertaking equals, in Marxist terminology, its constant capital plus variable capital plus surplus value, $c+v+s$. The new value added equals the variable capital plus the surplus value, $v+s$. Values produced to *replace* constant capital (to replace stocks of materials, for example, or the wear and tear of plant) do not create new income; they simply replace the old, previously produced values, the "dead labour" embodied in means of production produced in previous years. In so far, however, as capital is accumulated and additional constant capital is produced as a basis for extended reproduction, the new values produced in the form of means of production are a part of the national income. The national income therefore equals the sum total of new values produced, which equals the sum total of wages plus the sum total of surplus value, $v+s$, and includes accumulation which comes out of the surplus value. The rate of accumulation, as shown in Chapter VIII, has far-reaching consequences for the development of capitalist economy.

The national income will normally be expressed in terms of money; for example, it may be said that Britain's national income was in the years before the Second World War in the region of £4,000 million. Here money is used as a measure of value; each £ unit of the money commodity (that is, gold, which despite the changing gold-content of national currencies still serves as the main international money commodity of the capitalist world) embodies let us say, five hours* of "abstract, average, socially necessary labour-time". A national income of £4,000 million therefore represents new values produced by 20,000 million hours of abstract labour-time. This figure of £4,000 million reflects the total volume of productive labour effectively engaged. If the volume of material goods produced is to be measured from year to year, the money measure may have to be adjusted. Measurement needs to be in *constant prices*, if the money measure is not to be a misleading measure when values of money and goods alter relatively to one another. If productivity of labour increases the *mass* of commodities will increase; but the sum total of *values* will not increase

* Very roughly correct for the years before the Second World War; in 1948 two-and-a-half hours would be nearer the mark.

unless there is also more labour used on production.

Bourgeois theory, when it comes to deal with national income gets involved in the greatest difficulties. Thus, for example, Professor A. L. Bowley, the great authority on the national income: "By *total national income* is generally meant the aggregate of the incomes (including earnings) of the persons composing a nation; income is taken as meaning the money, or money value of goods, coming into a person's possession during a year for his own use (subject to rates and taxes), after all expenses connected with it are substracted. . . . It is doubtful whether a perfectly definite meaning can be attached to National Income. The sum of money nominally representing it, of course, does not actually exist. . . . The utility of £1 to a person is in general the less the greater his income and the total utility of all incomes depends on how they are distributed among persons. On the other side, the value of services and commodities depends upon the demand for them. In fact the hundreds of millions of pounds which make the aggregate are not a homogeneous total." (*An Elementary Manual of Statistics*, Chapter IX, p. 199.) Professor Bowley has put his finger right on the "sore spot" of his own bourgeois theory; on a subjective utility theory of value, £1 measures nothing but subjective valuations of relative utilities and therefore adding up national income in money terms has "no definite meaning"—indeed, no meaning at all. Professor Bowley points out that national income would only have meaning if it could be aggregated in terms of a homogeneous total. This is so. Recognition of the common element entering into the multiplicity of commodities produced is necessary to the analysis of National Income. This common element is the fact that they are all produced by human labour employed within the capitalist system. (As such, commodities have exchange-value proportionate to the homogeneous abstract labour-time that they embody—see p. 24.) At the same time they are designed to satisfy a multiplicity of diverse human wants. As such, they have use value and embody concrete labour. The error and confusion of bourgeois economics derives from its attempt to explain matters as if commodities were *nothing but* use-values. The aspect of homogeneity in commodities is completely disregarded. Bourgeois theory comes, therefore, to the conclusion that it is meaningless to add and average subjective utilities, and in loyalty to his false theory Professor Bowley is forced to doubt whether any meaning attaches to the National Income.

Bourgeois theory argues that income is the reward of the various "factors of production", land, labour, capital, managerial ability, salesmanship, etc. Each "economic factor" is brought to market where it gets what it is worth on the market, where each man measures the deal subjectively in terms of utility. (The official White Paper on National Income in 1947, Cmd. 7371, p. 20, defines its estimate of national income as "incomes received by factors of production . . . in the course of producing the current output of

goods and services of all kinds ".) Bourgeois theory, instead of basing itself on production, that is the new *value* produced, turns itself upside down and rivets its attention on incomes received by what it pleases to call " factors of production " (Cmd. 7371 covers under the general title of " factors of production " a very mixed bag, including, for example, soldiers, lawyers, " coupon-clippers ", absentee landlords, domestic servants, etc., etc.—in fact, any one who receives an income). The incorrect basis of bourgeois theory has proved a grave practical impediment in the compilation of national income statistics in capitalist countries.

To sum up, national income can only be the new values produced and embodied in the commodities available for the community's use. These new values equal the sum of total wages of productive workers plus total surplus value ($v + s$ in the Marxist formula). The surplus after payment for wages is the sum total available for rent, interest, profit, for accumulation, for commercial services and other " overheads " of the capitalist mode of production, for the armed forces and other non-productive expenditures by the State.

Company Finance

The study of company finance helps us to see how the values produced in the factory (the point of production where the values are actually created) flow out to the various classes and sections of the community. Today almost all Joint Stock Companies take the form of Limited Liability Companies—Ltd. for short. Suppose that the capital structure of a company (here an imaginary one) is as follows:

£1,000,000 in £1 Ordinary Shares.
£400,000 in 7 per cent Preference Shares.
£1,000,000 in 4 per cent Debentures.

What are the peculiarities of these three main types of share? First, *Debentures*: these are loans plain and simple on which a specified interest (in this case 4 per cent) has to be paid every year until the Debentures are repaid (conditions for which will be laid down). The company must pay interest on Debentures whether it makes a profit or no; if it does not, it is liable to be made bankrupt and forced to go into liquidation (that is, all its assets must be sold to repay its debt). *Preference shares* are, as the name implies, shares which take preference over other shares—when the company divides out its profits (pays a *dividend*), the prescribed dividend, in this case 7 per cent, must be paid on the Preference shares before any other dividends are paid out. Last of all, the *Ordinary share*-holders come in for payment. If profits have been small, no dividend at all may be paid to the Ordinary shareholders; on the other hand if profits have been large, 20 per cent, 30 per cent, or 40 per cent or even more may be paid out to them while the Preference shareholders are still getting only 7 per cent. Ordinary shares are therefore more of a gamble; they may get high dividends or none at all. These speculative shares

that gain and lose most from the fortunes of business are often described as *equity* shares.

Control of company policy is in theory generally exercised by the Ordinary shareholders, each shareholder having as many votes as he has shares; but in practice a few large shareholders control policy and see that the directors they want (often themselves) are elected. In this way the whole of the capital is in effect controlled by only a part of the shareholders. Sometimes, in order to safeguard control, there are special classes of shares which carry preferential voting rights which give complete control of company policy.

The working capital of a company by no means necessarily corresponds to the issued capital. In some cases, the issued capital may have been expanded by issuing free shares (" *bonus shares* ") to shareholders and sometimes the money value of the assets belonging to the company is considerably less than the issued capital. If this is so, the capital is said to be " watered ". After the First World War the money figure for the capital of many textile companies was inflated far beyond the real value of the assets they owned. Again the railways maintained an excessive money figure for their capitals. On the other hand, a company may have accumulated each year profits which, instead of being paid out in dividends, have been put to reserves, and thus reserve funds as great as the issued capital may have been built up. In this event, the actual working capital will have been greatly increased and, other things being equal, the profits will be correspondingly bigger, and large dividends are likely to be regularly paid. The reasonably certain prospect of getting large dividends will lead to the value of such a company's shares on the Stock Exchange going up. A share of nominal value of £1 may then cost £5, £10, or £20 to buy. The rise and fall of the prices of individual shares on the Stock Exchange may, however, be due to nothing but gambling and financial manipulation.

Consider now some figures in the accounts of our imaginary company. The Company's income will come mainly from receipts for the sale of its products, for which it will get not the full price paid by the consumer but " the factory gate " price. Let us say also that it receives income from a *subsidiary* company which we will suppose markets the products of the parent company and is engaged solely in trading. The profits of this company may be taken to represent that portion of the surplus value which (though produced, of course, in the factory) is realised only in the sphere of distribution. (See section on Commercial Capital in Chapter VI.) From this source let us say that the parent company receives £200,000. Its receipts will therefore be:

Receipts from Sale of Products	£1,300,000
Income from dividends on shares in subsidiary company	£200,000
Total receipts ...	£1,500,000

Against the receipts must be set expenses. The main expenses will be purchases of fuel, raw materials, etc., out of which the capitalists selling these products make their profits. The other large item on the expense side will be wages of the productive workers, incomes which will be spent by the workers on the means of living. Then something will be set aside for the depreciation of plant, etc. This money will periodically be spent on new machines or component parts, repairs to buildings, etc., and will eventually pass into the hands of the capitalists owning the factories which produce these things. There will also be a number of " expenses " which are really (in the main) payments out of surplus value, such as directors' fees, rates (which then pass into the hands of companies or individuals employed by Local Authorities), rent (which is unearned income going to landlords), insurance etc. (income for financial concerns), legal expenses (incomes for lawyers, lawyers' clerks etc.), and so on. The *expenses* side of our company's accounts might therefore be as follows:

	£
Purchases of raw material, fuel, etc.	800,000
Wages, etc.	200,000
Directors' fees	30,000
Rent and Rates	20,000
Depreciation of Plant, etc.	40,000
Legal Expenses, Insurance, etc.	10,000
Total Expenses	£1,100,000

Receipts exceed expenses by £400,000. What happens to all this? The 4 per cent will have to be paid on the 4 per cent Debentures; this will take £40,000. There may be certain taxes to be paid direct by the company (such as National Defence Contributions, E.P.T., etc., which we assume in all to total £20,000). After payment of debenture interest and taxes £340,000 will be left. Next the 7 per cent will be paid on the Preference shares, taking £28,000 (less taxation for which the company is liable). Having handed over to the state such part of the surplus value as the law compels and having handed out those unearned incomes which fall as a first charge on the surplus value produced, the Directors will decide how they want to see the remainder of £312,000 divided between the Ordinary shareholders and "profits put to reserve", that is, profits accumulated so that they can function as new capital in the next turnover of capital. It is now usual for capitalists, in their anxiety to expand their future profits and economic power, to put bigger and bigger sums to reserve. Suppose that they decide that 15 per cent is an ample dividend for the Ordinary shareholders and accordingly pay out £150,000 in this way, leaving £162,000 to put to reserves. In order to disguise the true size of total profits, the pay-

ment into reserves will probably not be made in a straightforward way. They may, for example, make excessive allowances for depreciation of stock and plant, £100,000 say instead of £40,000, thus hiding away £60,000 as a secret reserve; of the balance they may put £20,000 openly to ordinary reserves and £80,000 to a special contingency reserve, spinning an appropriate story about the contingency they have in mind. And what will they do with the remaining £2,000? Perhaps one of the directors will have a brain-wave; he will say, "Our workers are not such fools. They will see, despite all our 'secret' and 'contingency' reserves that we have made handsome profits this year. Would it not be a good idea to forestall their demands for increased wages and keep them quiet and sweet, at a great saving to ourselves in the long run, by paying them the remaining £2,000 as a special bonus? Then who can say that the workers don't share in the profits?" The proposition will be carried unanimously, with Colonel Blimp, the Vice-Chairman, muttering that all the same the workers get more than they are worth. One further device for making the profit look small and keeping the workers quiet may be adopted; with much self-righteousness it will be announced that dividends are only 10 per cent of total receipts. But those who know what to look for will note that the rate of surplus value is 230 per cent! (Surplus value = £400,000 plus £60,000 for Directors' fees, rent and legal expenses against £200,000 for wages.)

The capitalist owner of the productive undertakings is the first appropriator of surplus value but through his hands and those of the merchant capitalist surplus value passes into innumerable other hands. It goes far outside the factory in which it is produced. Only the part that is accumulated and turned into new capital, returns to industry; the rest goes to build the vast pyramid of capitalist exploitation, the incomes of the millionaires, of the rentiers and landlords, the many hundreds of thousands operating the costly business of capitalist distribution and commerce, the bankers and lawyers, the commission agents and brokers, the vast apparatus of the state machine by which the capitalist class maintains its power, all the "overheads" of the capitalist mode of production. The weight of this huge superstructure may be told in figures. In 1947 in Britain unearned incomes, rent, interest, profits, etc., totalled (before tax) £3,642 million, salaries and wages of those engaged in distribution, commerce, administration, the armed forces, and other "non-productive" occupations totalled (before tax) £2,740 million. Though greatly improved since the Second World War, available national income statistics do not show clearly (for reasons already explained) how the annual product is divided; but if the income figures given above are set against the figure of £2,845 million paid in wages to productive workers the relative magnitude of the surplus may be broadly assessed. Account, however, must also be taken of the fact that the part of the surplus taken by the capitalist state (in 1947

£1,831 million in indirect taxes—mainly, that is, from workers and low-income groups—and £1,785 million in direct taxes—mainly from the middle and higher income groups) amounted to roughly one-third part of the total annual product. All these figures emphasise the magnitude of the surplus produced but the tale they tell is not one of national wealth—wealth, that is, for the people to enjoy and benefit from. It is a tale rather of wealth squandered to keep in being the capitalist system of production and distribution, the system that breeds crisis and war. But if, shackled and fettered by capitalism, a comparatively small proportion of productive workers could produce so great a surplus to maintain the unwieldy edifice of capitalist waste and exploitation, what a paradise of happiness and prosperity Britain's workers could create if they were free to use and develop all the forces of production latent in modern society—in short, if production were for use and not for profit, if the working class had taken state power and changed Britain's mode of production from capitalism to Socialism!

CHAPTER XI

SOCIALISM: THE FIRST SOCIALIST STATE

The conditions historically necessary for the emergence of Socialism—The transition from capitalism to Socialism — Socialist planning — The law of value in Socialist economy — Wages and money in Socialist economy — Socialist accumulation and the advance of backward industries and communities — Agricultural development — The second stage of Socialism — The historical significance of the Russian Revolution.

THE capitalist mode of production, whose growth and history we have been studying, is itself only a stage in the development of man's control over nature. Within it, as we have seen, contradictions arise which increasingly check further advance and cannot be overcome within the limits of capitalist society. At the same time, the sharpening of these contradictions, and the class struggles arising from them, reflect the growth within capitalist society on a world scale of the necessary conditions for the emergence of a new mode of production. In their most general form these conditions may be stated as:

1. Such a development of the productive forces as makes possible a radical improvement in living standards, if new property relations are created; the wide extension of *social* production—human needs are increasingly supplied by the co-operation of very large numbers of workers within large factories and combined enterprises, and in a wider sense by their association in various stages of production within a country and, indeed, all over the world; together with this a high degree of concentration of production and centralised organisation which facilitates central administration and planning.

2. As a part of these developments the growth of the number of wage-workers, their concentration in the large undertakings, their organisation in trade unions and growing consciousness of their common interests as a class, the growth of working-class political parties, and the emergence of the Communist Party, based on Marxism, as the leader of the conscious political struggle for working-class power.

Thus both the *material* productive forces have to become adequate for a higher mode of production; and the *human* productive forces have to be sufficiently developed to destroy the previous property relations and establish that higher mode of production—in which social ownership replaces private ownership, exploitation is ended, and classes no longer exist.

There can be no doubt that with the imperialist epoch and the general crisis of capitalism these conditions have fully matured.

While these conditions are historically necessary for the emergence of the Socialist mode of production — in the sense that Socialism could not have appeared before capitalism had developed

the productive forces, and created its gravedigger, the proletariat—it by no means follows that Socialism first appears where both these conditions are most fully developed. On the contrary, the overthrow of capitalist class rule and of capitalist property relations is a *political* act, the success of which depends on the relative strength of the class forces within a particular country (and in the world outside) at that time. Tsarist Russia was by no means the most advanced capitalist country in 1917, although it had large-scale capitalist enterprises and a well-defined proletariat. The success of the Bolshevik revolution was due to the leadership of Lenin and the Bolshevik Party, which was able to combine the revolt of the working class, the peasant revolt, and the revolt of the subject nationalities in a single revolutionary movement against the *relatively* (as compared with other capitalist countries) weak Tsarist state and landowning capitalist class, already shaken by war and military defeat; while the continuing imperialist conflict gave sufficient time for consolidation of the victory.

No fundamental economic change is possible—and therefore the building of Socialism is not possible—unless state power is in the hands of the workers. State political power is then used to disappropriate the capitalist class, to take the ownership and control of the means of production out of their hands and to bring to an end their appropriation of surplus values. In this way the necessary preconditions are laid down for the advance to Socialism. (The relations of class forces which on a world scale are becoming more and more favourable for the working class in alliance with other exploited classes are considered in Chapter XIII, which deals with the present stage in the world transition to Socialism.)

The Transition from Capitalism to Socialism

The transition from one mode of production to another is necessarily a lengthy process. The precise forms of the transition and the length of time required for the complete elimination of the old and the building up of the new mode of production depend on the particular conditions in the country concerned—the relation of class forces (within the country, and in the world), the productive level already attained, the character of industry and agriculture, the natural resources available, the development of labour and technical force, the general level of education, the strength of social traditions, and many other factors which help or retard the process of change. Nevertheless there are certain general features which must be regarded as essential:

(1) The establishment of working-class rule (always in alliance with other exploited classes) does not end the class struggle, which continues internally until the new mode of production is completely established and no exploiting class remains, and externally until the whole world is Socialist.

(2) The first step in transforming the productive system is the

taking over by the Socialist state of the "commanding heights" of industry—large-scale enterprises, at least in the basic industries, commerce, transport, and finance.

(3) Alongside the Socialist sector there continues a variety of other forms of production—capitalist, simple commodity production, and in some cases even pre-capitalist forms, which can only gradually be controlled and transformed into Socialist forms; this is particularly the case with agriculture.

(4) The planning of production and of the distribution of the product has a firm basis in the Socialist sector, and is gradually extended to other sectors; the control of foreign trade is an essential part of planning.

(5) The plan aims "to increase the total of productive forces as rapidly as possible" (*Communist Manifesto*), and to bring into full use all the material and human resources of the country, in order to raise the material and cultural level of the people.

Socialism as a Planned Economy

In capitalist society each separate capital enters the productive process for the sake of the profit—the surplus value created by the workers—which it realises on the market. In Socialist society the unification of the means of production in the hands of the state makes possible planned production for use by the whole people. In the *Critique of the Gotha Programme*, Marx showed that the total social product in a Socialist society would have to provide not only for the consumption needs of the actual producers, but also for:

(1) Replacement of the means of production used up;

(2) The expansion of production;

(3) Reserve or insurance fund to provide against misadventures, disturbances through natural events, etc. (Soviet experience shows the need to provide for defence);

(4) General costs of administration not belonging to production;

(5) Communal satisfaction of needs, such as schools, health services, etc.;

(6) Funds for those unable to work.

The plan of production in a Socialist society has to ensure production to meet these needs, and also the appropriate distribution of the product.

In the early stages of the transition the economy is of a mixed type. For example, in the Soviet Union in 1921 Lenin showed that there were five main elements present: self-sufficing peasant economy, small commodity production, private capitalism, state capitalism, Socialism. In such conditions planning would be fully effective only in regard to the Socialist sector (including the co-operatives) and, in some degree, the state capitalist sector (that is, the capitalist sector controlled by the state), extending into the other sectors through commercial relations between them and the

Socialist sector, through taxation and various forms of control. It was not until 1927 that the connections had been sufficiently developed, and the state sector sufficiently enlarged, to make it possible to begin working out an effective general plan—the first of the Five-Year Plans (1929-1932).

In " free " capitalist production the amount of equipment, raw materials, and labour that goes into each industry is regulated by the movement of prices on the market, reflecting short supply or over-supply of particular goods. The consequent rise or fall in the rate of profit tends to attract capital (equipment, materials, labour) to that industry, or to move capital from that industry to others. Thus the regulation by prices and profits takes place by means of violent corrections of disproportions already produced by capitalism —with their devastating effects on the working class, and their waste of resources. In planned Socialist production the allocation of equipment, materials, and labour to each industry is a conscious act, directed to meeting the present and future needs of society; the system as such therefore involves no waste of human or material resources.

In " free " capitalist production the accumulation of capital, the expansion of productive power, comes into conflict with the limited consuming power of the actual producers in capitalist society; this general relative overproduction is corrected by economic crises— mass unemployment, short-time working, destruction of goods produced, destruction of means of production or restriction of their use, the holding back of technical developments and a check to industrial and social progress. In a planned Socialist society the expansion of productive power meets no such check. Each planned increase in productive power and actual production is accompanied by a corresponding increase in the consuming power of the people —higher wages, extended social services, and more industrial and social construction of all kinds. There is, therefore, no overproduction in relation to consuming power, no unemployment, no check to the further expansion of producing power. On the contrary, the productive forces of society, freed from the fetters of capitalism, can be devoted to vast developments of the means of production. " Expanded Socialist Reproduction " goes on at an enormous speed.

In " free " capitalist society the accumulation of capital and its centralisation in the form of giant monopolies results not only in world economic crises, but in the conflict of national groups for new markets and spheres of investment more profitable than the home market, which is increasingly restricted through their own operations; permanent unemployment develops on a large scale, and full employment comes only with war, with its devastating effects on the people and on industrial and social progress, while it is " terribly profitable " for the capitalist class. In planned Socialist society the " market " for expanding production is at home; no one

is interested in the conquest of other markets or spheres of investment; no group stands to benefit from war; foreign trade, in both means of production and consumers' goods, does not aim at exploitation but at the exchange of equal values for the purpose of acquiring goods not available from home resources or only at a higher cost.

In "free" capitalist society monopoly and the restricted market result in the distortion and restriction of research, the holding back of technical developments which might endanger profits, the failure to develop available resources and to use the immense fund of inventiveness among the workers. In planned Socialist society the state, concerned to raise the material and cultural standards of the people, allocates immense funds to research, applies technical improvements without hesitation, develops national resources to the utmost, and draws in the workers to co-operate in improving technique and organisation in order to secure the greatest possible production.

In "free" capitalist society the workers are kept in ignorance of the costs of production, the source and price of raw materials and other details of the productive process, the marketing arrangements and other "managerial" secrets; they know that the employer's sole aim is profit from their surplus labour; they can therefore take no interest in production, and their attitude to work is limited to their need for wages. In planned Socialist society, the workers know that they and the whole society benefit from increased production; they participate in the making of the plan for their industry and their enterprise, and are fully informed of all the details and costs of the productive process and the use of the product; they are therefore deeply concerned with production, and they regard work as a part of their responsibility to society as a whole.

Thus in all respects the planned economy of Socialism overcomes the contradictions inherent in capitalist economy; it removes the barriers which capitalism places in the way of economic and social progress, and enables human society to make full use of its economic and social achievements.

The Machinery of Planning

From what has been said, it is clear that the attempt made by opponents of Communism to describe Socialist planning as "totalitarian", opposing it to the so-called "democratic" planning of the Labour Government, has no foundation. It is merely an attempt to cover up the fact that planning in a Socialist country is planning for the people by the people in the fullest meaning of democracy; while the so-called "democratic" planning in Britain is either not planning at all, or "planning" by a bureaucracy under the influence of the monopolists in the interest of these monopolists and not for the people.

Real planning is not possible unless state power and economic

power is in the hands of the working class. How can industry be planned if it is owned and controlled by capitalists whose aim is to produce profit, and is it conceivable that a capitalist state would take control of industry out of the hands of the capitalists? Real planning also is not possible without a Communist Party guided by Marxism and able to lay down the broad strategic aims of the Plan and to make clear to the workers and the masses the significance of the Plan and to inspire and organise them to fight for its aims.

In the Soviet Union and in other countries advancing to Socialism both the general features of the plan and its detailed application to a particular enterprise and even department are fully discussed by the workers, who participate directly, and indirectly through their trade unions, in determining the conditions and methods of work. In the carrying out of the plan they participate also in the checking up and control of results achieved, and have considerable powers to eliminate bad management, bottlenecks, and other hindrances to the successful carrying out of the plan. In alleged "democratic" planning the workers have no such participation.

In order to create the possibility of effective planning in the Soviet Union, central statistical records covering every aspect of production and distribution are maintained, and a Central Planning Commission is continuously at work drafting and controlling every part of the plan, and linked with planning units in each industry and each factory. In Britain even the small and powerless planning board set up in 1947 had no adequate statistical materials, and in 1948 was made a mere sub-department of the Treasury, thus removing it still further from the actual process of production and distribution.

In the Soviet Union industries taken over by the state were reorganised in "Trusts" linked together under a single Commissariat (now Ministry) for each of the major sections of industry, thus enormously facilitating all the operations of planned production and distribution and development of resources. Similarly, the development of collective farming and of the network of local, regional, and national co-operative organisations facilitated planned production and distribution in relation to agriculture.

A very responsible part is played by the trade unions (and by the co-operatives in their appropriate sphere) in Socialist planning of production and distribution at every stage. On the national scale, they participate in the working out of the plan—including the amount of wages and its allocation among the various industries—and in the control of results; they participate in the Ministries controlling sections of industry, and in all the regional and local administrative bodies, as well as in the productive enterprises themselves.

Thus from top to bottom Socialist planning draws all workers directly and indirectly through their organisations into active participation in preparing, adopting, and controlling the plan,

thereby establishing a democracy in the economic field which is completely impossible within capitalist society.

The Economic Laws of Socialist Production

The plan of production and distribution in Socialist society is not arbitrarily determined. It is obvious that the productive forces —material and human—taken over from capitalist society impose certain limits on what can be produced in the early years; so do the known resources of the country in raw materials, the forms of agriculture, and natural conditions generally. The plan must therefore have as its starting point what is actually being produced at the time when it is drafted, and how the product is being used. What is consciously determined is the *direction* of change—political decisions are made to develop certain industries, to apply more of the total product to development and less to consumption, what reserves to set aside for natural calamities or for war, and so forth.

But there is another and more important sense in which Soviet planning cannot be arbitrary. Every economic system has its own laws of movement. In capitalist society, economic laws are blind, or, to put it more clearly, individual capitalists are blind to the consequences for society of the decisions which they take in order to make profit and expand their capital; the laws of capitalist production act independently of the wills of the capitalists. In Socialist society the decisions of the planners are made with the knowledge of the laws of Socialist production and in conformity with them: they are consciously used to bring about desired results.

At the same time it must be remembered that the building of a Socialist society is a process lasting over a considerable period, in the course of which the economy of the country concerned contains other, non-Socialist elements, which move in accordance with their appropriate economic laws. For example, the New Economic Policy introduced by Lenin in 1921 giving a measure of freedom to produce and trade for profit, had the anticipated result on the one hand of stimulating production and trade, and on the other hand of developing a new class of rich "Nepmen", just as small-scale capitalist production everywhere throws up richer capitalists. But this movement took place within a society in which the workers held power and controlled the "commanding heights" of industry, commerce, and finance; the development of the state sector of economy was far more rapid than the expansion of the capitalist sector; the capitalist sector was unable to penetrate large-scale industry, and was itself dependent on the products of large-scale state industry; and the conscious use by the state of its economic power, as well as its political power to control and tax, led to the weakening and eventually the elimination of the "Nepmen" and of the capitalist sector within which they moved.

The laws of movement of a Socialist economy are consequently affected by the laws of movement in the non-Socialist sector so

long as that exists, and the conscious planning of the economy in the transition period is to that extent also affected. Nevertheless, there are certain laws of a Socialist economy which operate within the Socialist sector, and with the extension of that sector begin to dominate the whole economy. They are best illustrated by an examination of how far, and with what effects, the law of value applies in a Socialist economy; the origin and effects of Socialist accumulation as compared with capitalist accumulation; the role of money and accounting, of wages and incentives; the relation between town and country; and the relation between a Socialist country and other countries.

The Application of the Law of Value

The law of value—the exchange of commodities on the basis of the average socially necessary labour embodied in them—has held good throughout all stages of commodity production. If a Socialist economy is seen as a developing process, and not as an abstract finished " system ", it is obvious that the transition is from capitalist commodity production (the production and distribution of exchange values) to fully planned production and distribution to meet the needs of the people.

Throughout the transition, the exchange of products takes place. In the early stages, when only large-scale industry has been taken over by the state, supplies of various kinds—especially food for the workers—have to be obtained from the non-Socialist sectors, the private capitalists, the peasants, etc.; and for a long time the distribution of articles of consumption made in the state factories has to be partly carried out through private traders. It is true that, as a temporary measure during the civil war from 1918 to 1920, the Soviet Government operated " War Communism "—the taking of grain from the peasants and its distribution as required for the purposes of the war, without regard to any questions of exchange and value. But this was a war measure, and is not a necessary stage in the transition. Apart from war conditions, continuous and increasing production in the period of transition required the exchange of commodities, and the basis for exchange cannot be anything else but value; and the exchange has to take place through money. (The role of money in Socialist economy is dealt with later.)

But if in the Soviet Union the exchange of products between the Socialist sector and the private sector and, of course, within the private sector itself, could only take place on the basis of the law of value and through the mediation of money, was this necessary between enterprises within the Socialist sector—say between the state mines and the state railways? In the abstract, it is conceivable that such exchanges might take place on the basis of the actual known labour-time embodied in the coal or the transport. But in practice, at the stage when Socialism has not yet grown into Communism, this would not be a practicable measure of value. The

labour *capacity* of one man is not equal to that of another: one man is intellectually or physically more developed than another, or more skilled than another. Therefore one hour of his labour does not in fact give society as much as another's, and cannot be treated as equal to it; and exchange of goods, embodying the labour of the respective men concerned, which ignored this difference, would be detrimental to society, by causing disproportions between production and consumption. Moreover, the *productive conditions* in which different men are placed (in the earlier stage of Communism known as Socialism) are necessarily not the same. Some work in a more mechanised and rationally organised factory, others in a factory less up to date, others again in handicraft production. One man's hour of labour, for this reason too, cannot yet be fully equated with another's. Another measure must still be used—one which represents socially necessary labour in the abstract, so to speak. Value expressed in money is the most convenient medium ready to hand for this purpose.

Moreover, exchange through money would be necessary in all transactions with the private sector; it would therefore be much simpler to apply the same method to transactions also with state enterprises. This was also necessary from the standpoint of the economy as a whole—the Economic Plan, the State Budget, and the work of the State Banks. And it was particularly necessary from the standpoint of the accounting within the state enterprises themselves, to facilitate the checking of results, encourage economy in production, and generally ensure careful management. It was also necessary for this first stage of Socialism that different sorts of labour should be paid differently, which could best be done by payments in money which could be spent in the retail market. After some early experiments in " barter ", therefore, exchange mediated by money became universal for state enterprises as well as in the non-Socialist sector of production and trade.

However, with gradual elimination of privately owned industry and trade, and with the concentration of individual peasant production into collective farms, the question arises whether exchange and value still operate in the Soviet Union. In fact, although co-operative organisations within a society that is predominantly Socialist are of enormous importance in speeding the transition to a full Socialist economy, they are " privately owned " by definite groups of persons and not owned by society as a whole. They exchange their products with other similar groups, with individuals, and with state concerns; and the exchange can only be on the basis of value. And here, too, there is a difference in productive conditions as well as the productive capacity of different individuals—of the collective farmers among themselves, of the collective farmers compared with agricultural workers on a big state-planned and highly mechanised state farm, and of the collective farmer compared with the industrial worker. Hence it is impossible as yet to regard

an hour's work in each case as representing the same quantity of " abstract " or socially necessary labour; and the products accordingly cannot be directly exchanged on the basis of the number of hours worked alone. Value here, too, must be measured in prices.

It is true that prices are fixed by the state for most farm products; but if the prices fixed were below the values, the production of those items would fall as would happen in a capitalist society; and if the prices fixed were above the values, production would tend to concentrate on these items, and the production of other necessary items would fall. In general, therefore, state prices for " privately " produced goods are based on values, although the price mechanism can be consciously used in order to stimulate the production of particular items.

How does it stand with the prices fixed by the state for the products of its own enterprises, whether sold to other state enterprises or outside the state sector? Here also the basis of the price is the value, although variations may be consciously made in order to provide a surplus or to subsidise particular developments. It is necessary to base price on value in order to get correct accounting within the enterprise and also for society as a whole. If an enterprise sold its products below value, not only would it show a loss and require state subsidies, but in transactions with the " private " sector it would be making a gift from the total social product to a " private " group or individual.

It can be said, therefore, that exchange on the basis of value takes place in Soviet economy, and must take place in all countries during the transition from capitalism to Communism.

But the law of value does not operate in the same way as in capitalist society. As we have seen, in capitalist society the law of value asserts itself, through price fluctuations, in such a way that it determines the level of employment and regulates the distribution of capital and labour according to the profits to be made in one or another branch of industry. In Socialist society, on the other hand, the distribution of labour is a conscious act (though the state may use the price mechanism to bring about this distribution of labour, especially in relation to the " private " sector). The law of value does not work blindly; it is used consciously. It does not operate by violent, unwanted dislocation; it is operated to ensure steady, ordered progress.

It is, however, in relation to wages that the difference between value in capitalist society and value in Socialist society becomes most evident.

Wages in a Socialist Society

In capitalist society labour-power is a commodity sold by its owner for money wages equivalent to its value, that is, to the amount of labour embodied in the goods needed for existence. Trade union action or a shortage of labour-power may raise wages above the

subsistence level and on the other hand wages may be forced below subsistence level temporarily or for a long period (as with the miners between the wars); but in the long run the subsistence level determines the wages (although in different countries owing to different historical conditions which give rise to different traditions, the subsistence levels may be different). In Socialist society payments are also made to the worker for using his labour-power, and they are called wages; but because the means of production are not privately owned, because they are owned by society as a whole and therefore by the workers themselves, labour-power is not a commodity sold by its owner, and therefore there is no "surplus value" appropriated by another person. The wages are not the purchase price of the labour-power, the value of which is equivalent to subsistence costs. On the contrary, wages represent that portion of the product which is allocated for the use of the worker directly, while the remaining portion of the product is allocated for his benefit indirectly, through increasing the country's productive forces, its social services, and general administrative services, including defence and reserves. The amount allocated through wages for the direct use of the worker is not limited to subsistence, but is increased year by year parallel with the increase in the total social product.

Because labour-power is not a commodity in Socialist society, it does not create surplus value, which is the difference between the value of the labour-power and the value of the product. A portion of the value of the product is transferred to the state for the purposes mentioned above, after the worker has received the portion directly allocated for his own use. But this is surplus *product,* a part of the value he creates in association with other workers which he, also in association with them, deliberately sets aside for their common needs—something completely different from surplus *value,* a part of the value he creates that is robbed from him in capitalist society.

If wages in Socialist society represent a conscious allocation of the total social product, and have no relation to value or subsistence, on what basis are they fixed? Here once again it is necessary to stress the transitional character of the period during which Socialism is being built up. In the early stages, certain levels of wages for different industries and types of workers are inherited from capitalist society. The first steps in the conscious allocation of wages are to raise those which in fact are below subsistence level. As the total production increases, and therefore it is possible to allocate more to wages, two general principles are applied. In the first place, a portion of the increase available is applied to the general raising of wages of all workers, with special stress on the lowest paid. The remaining portion is then used to establish " differentials " to draw workers to industries which it is desired to expand, or to encourage special skills, or to encourage greater output by way of production bonuses of various kinds. Thus the different rates of wages in a Socialist society are in part the inheritance from capitalism—broadly reflect-

ing the value of different types of labour-power—and in part conscious differentiations for special purposes; while additional incentives for output are a further expression of the formula for the whole period of Socialism: to each according to his work. In general, differentials are essential to encourage workers to raise their qualifications, and at the same time they express the higher contribution to the total output made by the more skilled workers.

Money in a Socialist Society

From what has already been said it is evident that money must continue to be used during the whole period of Socialism, the transition period between capitalism and Communism. On the surface its use is the same as in capitalist society—cash and notes for small purchases, for the payment of wages and salaries; cheques and bills of exchange for larger transactions; loans from banks; deposits in the banks. But if we examine its functions more closely we see two fundamental differences from money in capitalist society.

First, as we have just seen, money paid as wages is merely a form in which the products of society are distributed for individual consumption. So long as there is not enough produced to meet all needs, there must be a limit to each person's individual consumption. The product could be (and in difficult periods has to be) distributed as a ration to each; but this is a clumsy method, not allowing choice, and making differentiation very complicated. But the distribution is based on the total product, which is priced; the distribution in money rises with the increase in the total product, whereas in capitalist society the distribution to the workers is not related to the total product, but to the amount required for the worker's maintenance.

Second, in Socialist society money is not, and cannot become, capital through which the means of production are monopolised by a class, which is then able to compel another class to work for it, to produce profit for the owner. Money is merely a means of more exact measurement and supervision by society of the planned use of its resources in labour-power, raw materials, and finished goods; and also of exchange or payment in the hands of an individual. It is never capital. The one apparent exception to this is the fact that individuals may "invest" their savings in state loans, on which interest is paid. However, the real nature of such a transaction is that the state is enabled to devote a larger proportion of the current year's production to developing industry and other permanent additions to the country's resources, and less to individual consumption. It is true that the same result could be got by reducing wages (or not raising wages). But again this would be a clumsy method, not taking into account differences between the needs of individuals and their different contributions to the total product of society. The state loan method, combined with rising wages, enables those with greater needs to satisfy them, and those with smaller needs to put back into

the pool what they do not at that moment need. The payment of interest is merely a " hang-over " from previous society to encourage subscriptions to loans; the amount is so small in relation to the individual's income from work that it has no significance, and it is for a short term. In recent years it has been more and more giving way to another device—prizes awarded to winning numbers on the loan bonds, in drawings which take place at frequent intervals.

In commodity production prior to Socialism men " lose control of the product ", they are ruled by prices and laws of the market; in Socialist economy prices, money, and the financial system as a whole are changed from inscrutable forces beyond human control into instruments consciously harnessed to serve the needs of society. Control of prices, of credit, of the margin of " Socialist profit ", and so forth, provide mechanisms of great flexibility with which to get each section of the economy and the individual workers to make the best possible productive contribution.

Agriculture

The transformation of individual peasant agriculture into Socialist agriculture is a special problem for every country. The first step is always the breaking up of large estates, and distribution of the land so that each peasant has enough to produce what he needs. Some large estates may be taken over and worked directly by the state, where large-scale, modern farming has been the practice; but the small farmer is the problem. Engels wrote (article on " The Peasant Problem", quoted by Lenin in *The Teachings of Karl Marx*, p. 32, M.S.W., Vol. I, p. 48): " Our task as regards the smallholders will first of all consist in transforming their individual production and individual ownership into co-operative production and co-operative ownership, not forcibly, but by way of example, and by offering social aid for this purpose." This has been applied in the Soviet Union, in the form of collective farms, which are a considerable step towards the final form in which the ownership is no longer by a co-operative but by society as a whole (Stalin, *Leninism*, pp. 355, 519-520). But the exact stages must vary from country to country. Large-scale farming on a co-operative basis requires machinery and equipment; the industrial basis for supplying this has to be created before collective farms are possible. This is the chief material condition for the start of the transformation.

Socialist Accumulation

As we have seen, planned Socialist production has to provide for the continuous increase of production, as the basis for a steady rise in the standard of living and culture, and also to preserve the independence of the country. In the case of the Soviet Union the first Five-Year Plan had to allocate a large part of the material and resources available to develop existing industries, create new ones, and lay the basis for the mechanisation of agriculture. In the second

Five-Year Plan (1933-37) the results of this increasing industrialisation were beginning to be felt, and it was possible to allocate a greater proportion of the resources to the production of articles of consumption. Concentration on defence preparations, and then the needs of the war itself and of reconstruction after the war, again meant the allocation of additional resources to the building up of industry; but in fact—apart from the war years—each expansion of industry is reflected in an increased supply of articles of consumption and therefore higher standards of living.

In capitalist society the process of accumulation is regularly held back by economic crises (during which "disaccumulation" takes place in many spheres of industry); the dispersal of ownership means also the dispersal of accumulation among a host of separate capitalist groups, preventing the full use of technical developments; and when ownership becomes centralised in monopolies, the tendency to hold back technical development in order to maintain profits on existing capital becomes more marked. Socialist accumulation is not subject to these checks, and therefore proceeds steadily at a rate unknown in capitalist society. For example, during the Five-Year Plans an average of 20 per cent has been added to Soviet production capacity each year, while during the same period the average addition to capital in the United States has been about 2 per cent, in Britain even less. As a result of this Socialist accumulation, and of the Socialist competition of the workers, productivity has increased by leaps and bounds, and will continue to increase. This rapid increase in productive power is a fundamental law of Socialist economy, showing that it overcomes the barriers to development created by capitalist society and therefore makes possible the rapid advance in material and cultural levels for which scientific achievements have laid the basis.

Town and Country

A further law of Socialist economy is that it raises the technical level in all fields of production in such a way that it must raise labour productivity to the highest possible level throughout the whole economy. In capitalist economy the law of unequal development holds good, not only between different countries but between different industries and particularly between town industry and agriculture. Technical developments increase accumulation in the hands of the group concerned, laying the basis for further technical developments, while the technically advanced industry (or country) is able to make super-profits through the exchange of its products, containing less labour, for the products of the backward industry or country, while it retards the accumulation and technical development of the backward industry. Thus we have industrial giants like I.C.I. alongside small, backward plants in many industries, and small, backward farms; we have relatively advanced British industry alongside primitive production in British colonies; and we have

giant United States capital dwarfing relatively backward British industry.

In a Socialist economy there is nothing parallel to the exploitation of one group by another. While under capitalism the advanced industry benefits from the existence of backward industries round it, an advanced Socialist industry is held back by the existence of backward industries round it, since this retards the growth of its own requirements in materials and food for its workers, and also the "market" for its products. Therefore the levelling up of technique is the most favourable condition for rapid development all round. This has special importance for agriculture, leading not only to greater output, but also to overcoming the relative backwardness of country people and giving them the technical knowledge and cultural life already won by workers in town industry.

The same principle applies in the relations between a Socialist country and industrially backward countries. Capitalist industry in an advanced imperialist country benefits from super-profits in its dealings with a backward country; but the existence of backward countries round a Socialist country holds back the full development of the Socialist country itself. Thus imperialist influence in a backward country aims to hold back that country's development; while the influence of a Socialist country in its relations with backward countries aims to help forward the industrial development of those countries.

The Second Stage of Socialism : Communism

Exchange relations and the use of money to mediate the exchange of products mark the whole period of the transition from capitalism until a stage is reached in which they are no longer necessary. The conditions for this second stage, *Communism,* were described by Marx in the *Critique of the Gotha Programme* as follows: "In a higher phase of Communist society, after the enslaving subordination of individuals under division of labour, and therefore also the antithesis between mental and physical labour, has vanished; after labour, from a mere means of life, has itself become the prime necessity of life; after the productive resources have also increased with the all-round development of the individual and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois law be fully left behind and society inscribe on its banners: from each according to his ability, to each according to his needs." (M.S.W., Vol. II, p. 566.)

The developments already described during the process of the Socialist transition therefore culminate in (*a*) the transformation of the human productive forces in such a way that everything that holds back full development is discarded—the one-sidedness of the division of labour, especially the division between mental and physical labour, which prevents or restricts the all-round development, and therefore the full productive ability of man; (*b*) the

transformation of the attitude to work, which is no longer regarded as an unpleasant necessity but as the expression of the individual in society; (*c*) the enormous development of the material productive forces and their effective use by such transformed individuals to provide abundant supplies of all that society needs.

The Transition to Communism in the U.S.S.R.

Transition to the "higher phase of Communist society" is now on the agenda in the U.S.S.R. Its material basis is a vast development of productive forces. The first Five-Year Plan (1928-32) industrialised the economy and laid the foundations for Socialism. The second Five-Year Plan (1933-37) completed the abolition of capitalism. The third Plan, which was to bring the U.S.S.R. economically abreast of the leading capitalist countries, was cut short by fascist aggression; but already in 1951, despite the devastations of war, industrial output was double that of 1940 and vast projects were being started which would provide the basis of Communism in the field of technique and production. These projects will change the course of rivers and bring life to vast deserts. Great power installations are being constructed. Shelter belts and other afforestation schemes will remake nature and transform agricultural conditions over vast areas. In every field great technical advances are being made.

New machines, however, and new sources of power by themselves mean nothing without the men and women behind them. Alongside the technical transformations of industry and agriculture, there is the transformation of men, new and higher skills on a mass scale, new attitudes to work, a closing of the gulf between townsman and countryman, between worker and peasant, between worker by hand and worker by brain. These economic and social changes not only change nature, therefore. They also change man himself. "Labour, from a mere means of life, becomes the prime necessity of life." As abundance is created for all, as labour becomes its own reward, the Socialist principle "to each according to his work" makes way for the Communist principle "to each according to his needs". With the elimination of class antagonisms, the instrument of social change is no longer the struggle of classes; the struggle between the old and the new is no longer settled by violence, but by discussion and debate, by "criticism and self-criticism".

To this the victory of the Russian workers in 1917 opened the door. It announced death to class domination and obscurantism. It anounced life to the endless unfolding of human achievement. It announced to the teeming millions of the poor and oppressed that they would soon inherit the earth. The significance of the event was not lost on the oppressors either. In their fear and trembling no slander against the Soviet Union is too vile, no violence too cruel. But they act in vain. History marches with the world of truth, Communism and life, against the world of lies, oppression and death.

CHAPTER XII

THE GENERAL CRISIS OF CAPITALISM

The breakdown of capitalism, the shrinkage of markets, idle capacity and mass unemployment as the necessary consequence of the laws of capitalist accumulation —The general crisis is the epoch of world transition from capitalism to Socialism —The main economic developments between the two world wars—The temporary stabilisation of capitalism—Changes in capitalist economic theories in this period —The main economic characteristics of the general crisis, the world agrarian crisis, restriction schemes, commercial and financial dislocation, tariff wars, accentuation of uneven development of capitalism and the struggle between the imperialists to redivide the world—State capitalism—Fascism.

"THE time is rapidly approaching ", wrote Engels in November 1886, in his introduction to the English translation of Marx's *Capital,* " when a thorough examination of England's economic position will impose itself as an irresistible national necessity. The working of the industrial system in this country, impossible without a constant and rapid extension of production, and therefore of markets, is coming to a dead stop. Free trade has exhausted its resources; even Manchester doubts its *quondam* [i.e. former] economic gospel. Foreign industry, rapidly developing, stares British production in the face everywhere, not only in protected, but also in neutral markets, and even on this side of the Channel. While the productive power increases in a geometric, the extension of markets proceeds at best in an arithmetic ratio. The decennial cycle of stagnation, prosperity, overproduction and crisis, ever recurrent from 1825 to 1867, seems indeed to have run its course; but only to land us in the slough of despond of a permanent and chronic depression."

Britain, in fact, turned from her gospel of free trade and, at the time when the great capitalist trusts and monopolist countries were growing in strength and political influence, instead espoused the doctrines of empire preached by Joseph Chamberlain. Temporarily Britain's economic position improved, but the respite was no more than temporary. Imperialism did nothing to solve the contradictions of capitalism. These contradictions reappeared on a world scale. Unable to find entry to new markets and " spheres of influence " to which capital could be profitably exported, the monopoly capitalists without hesitation used force, they went to war to win the markets and spheres of influence they coveted. Each of the imperialist powers argued that the world must be redivided to correspond to their respective strengths and to settle the argument, to determine their relative strengths, they made the human race wade through a sea of blood.

Each of the imperialist powers waged the First World War to solve their economic problems; but the forces at work within the imperialist powers found concrete expression in a host of political ambitions. Germany, for example, wanted Britain's colonies and

threatened British dominance in the Middle East. Britain feared German competition and wanted to strengthen her position in the Middle East. Russia wanted to control the Dardanelles. France sought to recover Alsace-Lorraine with its rich iron ores and to acquire the Saar with its coalmines and iron industries. Each sought a bigger share of the world. The war was fought and the world was redivided; but the economic problems of capitalism were not solved. They were, on the contrary, intensified; the contradictions of capitalism became more sharp, and the capitalist world was left in a condition of persisting industrial crisis and prolonged depression in agriculture.

With the First World War began the general crisis of capitalism. The law of capitalist development is, in the short-term, slump and boom, cyclical crisis; in the long-term the laws of capitalist accumulation lead the way to imperialism and the general breakdown of capitalism. The characteristic features of this general crisis of capitalism are (i) the break-up of the world into a capitalist and a Socialist sector, (ii) the shrinking of markets, (iii) the anti-imperialist movements in the colonies, (iv) idle capacity, restriction of production and intensified exploitation of labour, leading to (v) chronic mass unemployment on a scale never before known.

In this period of crisis the first breach in capitalist power was made. The landed aristocracy and the capitalists of Tsarist Russia were overthrown; one-sixth of the earth's surface was removed from the orbit of capitalist domination. The war was, moreover, followed by ceaseless struggles by colonial and other oppressed peoples to rid themselves of the imperialist yoke. It was the prelude to great mass movements in the industrial countries. It caused a radical dislocation of international trade, inflation, and financial chaos.

The general crisis of capitalism is the epoch of transition from capitalism to Socialism on a world scale, the epoch when the internal contradictions of the capitalist system have sharpened so much that capitalism begins to break down, when it ceases to be the sole and all-embracing system and when also its domination is undermined and finally shattered by the revolutionary working-class movement in the capitalist countries and by the anti-imperialist revolt in the colonial countries.

The economic and political features of the general crisis of capitalism are bound up with one another. The imperialists seek to extricate themselves from their economic difficulties at the expense of the workers and the subject peoples that they exploit. This sharpens the class antagonisms in the metropolitan countries and the struggle of the colonial peoples in the Empire. At the same time, the workers' organisations (and in particular the Communist Parties) gain experience and are steeled in these struggles. Under their leadership the broad masses of the people become imbued with an intolerance of the old order of things. They become less

tractable, and it is less easy for the capitalists to find a way out at the expense of the masses.

Stalin spoke of the general crisis of capitalism as " chronic under-employment of factories and armies of unemployed running into millions, which, moreover, have been transformed from reserve armies of labour into *permanent* armies of unemployed ". [*Political Report to the Sixteenth Congress of the C.P.S.U.(B).*] The general crisis, he said, " began during the period of the imperialist war, undermined the foundations of capitalism, and paved the way for the present economic crisis " (namely, that of 1929). He went on to say that the period of the general crisis of capitalism was one in which the imperialist war and its aftermath had intensified the decay of capitalism and disturbed its equilibrium; it was an " epoch of wars and revolutions " in which " capitalism no longer represents the *sole* and *all-embracing* system of economy ". The existence of Socialism alongside of capitalism " is demonstrating the rottenness of capitalism and shaking it to its foundations ".

Between the Two Wars

In Britain between 1914 and 1918 over half the national income was spent on armaments, the gold standard was abandoned, a vast number of workers were drafted from industry into the army (which sustained heavy casualties), profits and prices mounted steeply, and production (labour in particular) was subjected to new forms of government control. Plant and equipment, particularly that required for the production of consumer goods, could not easily be replaced and had by the end of the war seriously deteriorated. The economies of other belligerent countries were similarly upset. The fighting in Europe caused much destruction. In all, the war cost the belligerent nations £75,000 million and caused their wealth to be reduced by one-third. However, the U.S.A. and other countries of the Western hemisphere did not suffer economically, but in fact profited from the war. As a result of the war German competition with British industry was eliminated, but in every respect Britain had to yield first place to the U.S.A.

When the war was ended, a short boom in which prices and profits rocketed still higher than they had in the war was followed by slump and mass unemployment in 1921. The unemployed in Britain increased from half a million at the end of 1920 to two million at the end of 1921 (not to fall thereafter below one million until a second world war again created a labour shortage). In the decade 1900 to 1910 unemployment ranged between 2.5 per cent and 7.8 per cent and averaged 4.7 per cent. In 1916, 1917, and 1918 less than 1 per cent of the workers were unemployed. In 1920, 2.4 per cent were unemployed, in 1921 16.6 per cent. In no subsequent year, save 1927 (9.6 per cent), did unemployment fall below 10 per cent until the world was again plunged into war in 1939.

The crisis of 1921, which was a world crisis with its storm centre

in U.S.A., occurred before production had returned even to pre-war levels. It was a crisis of a peculiar kind precipitated by unbridled speculation and profiteering by the capitalist class. In Britain the price of producers' goods (taking 1913 as 100) rose from 261 in 1919 to 355 in 1920. Export prices stood at 359. Since import prices at 298 had advanced less rapidly, the British capitalists were clearly enriching themselves at the expense of the raw-material producing countries overseas (particularly Empire and colonial countries). Wages barely kept pace with the rise in prices, and although money wages were in 1920 more than two and a half times pre-war, real wages were only about 5 per cent above pre-war (and about the same as in 1900). At the height of the boom in 1920 the *value* of exports was two and a half times pre-war, but the *volume* was less than three-quarters—only 70 per cent of 1913. The purchasing power of the masses which ultimately sets the limit to what the capitalists can sell, was, of course, too restricted both abroad and at home to sustain production geared to such fantastic price levels.

To the problems of economic transition were added artificial shortages of raw materials due to speculation. National output, in terms of money, reached record heights (about £4,500 million); but in volume even at the height of the boom in 1920 it was barely 90 per cent of pre-war. In 1921 it fell to 61 per cent and exports to 50 per cent of pre-war. The prices of producers' goods came down to 178 per cent of pre-war, roughly half what they were in 1920. The boom had turned to slump before economic activity had returned even to pre-war levels.

Changes in the Structure of Capital

The war and the post-war boom transformed the whole structure of British capitalism. The most important changes were (*a*) the inflation of capital, and (*b*) accelerated growth of monopoly.

Inflation of capital. In industry after industry capital, expressed in terms of money, was vastly increased. This was done by such methods as issuing bonus shares (free shares given to shareholders) or buying up other firms at inflated prices. As a result of such transactions the capital of 238 cotton mills, which in 1913 stood at £11 million, was increased in 1919 and 1920 to £72 million. Yet the volume of production in the industry was even in 1920 more than 20 per cent below pre-war, and the equipment of the mills had not been substantially changed. Prices were pushed to fantastic heights, the average price of exported cloth reaching 11.34d. per yard in 1921 against 3.32d. per yard in 1913—a 241 per cent increase, although the price of raw cotton had only increased by 60 per cent. Although only two-thirds the pre-war number of workers were employed at real wages roughly equivalent to pre-war, the total sum of profits going to the capitalists was vastly increased enabling the spinning companies to pay an average dividend of 40 per cent

in 1921 as against 7¼ per cent in 1913. This indecent greed for profits and unbridled speculation smothered the cotton industry in an avalanche of paper capital claiming rights to profits, creating a heavy burden of overhead charges, and despite wage-cuts, keeping export prices high (in 1922 they were still 146 per cent above pre-war, whereas full-time wage-rates were only 69 per cent above pre-war). That is how capitalism murdered Lancashire, condemning it to starvation wages and unemployment.

A similar inflation of capital occurred in the iron and steel industry. Baldwins, for example, whose capital, reserves, and carry-forward in 1913 were £1,722,000, in 1921 could show a total of £9,604,000. Guest, Keen, and Nettlefold increased from £6,475,000 in 1913 to £16,130,000 in 1922, Dorman Long from £2,079,000 to £9,130,000, and so forth. Prices were forced to exceptional heights. No. 3 Cleveland pig-iron, which in 1913 sold at 55s. 3d., rose in the fourth quarter of 1920 to 224s. 5d., though pig-iron production was still at only three-quarters the 1913 level. Pig-iron production in 1921 dropped to one-quarter of the 1913 level, but prices at the beginning of 1921 were still 198s. 1d. for No. 3 Cleveland, and in the fourth quarter at 111s. 2d. were still double pre-war.

The course of events in engineering was much the same—high prices and low production. Industry was saddled with excessive overhead charges as a result of capital inflation, and export prices stayed high. For example, even in 1922 export prices of locomotives were 168 per cent, agricultural machinery 116 per cent, prime movers 154 per cent, and motor-cycles 53 per cent above pre-war.

Coal profits in 1919 were three times as high as pre-war, but production was one-fifth below. In the years of transition from the First World War when British industry stood in desperate need of reconstruction, it was strangled by capitalist profiteers—" the hard-faced men who did well out of the war ". British industry never recovered but the stranglehold of the capitalists who enriched themselves in the post-war inflation continued to plague the nation's affairs.

Growth of Monopoly. The First World War speeded the growth of monopoly. The associations of employers formed to handle war orders came largely under the control of the biggest firms and provided a basis for new concentrations of industry. War profits provided them with the means for buying up other concerns. Lever Bros., for example, which in 1913 controlled forty other companies, by 1921 had gained control of 160 companies, increasing its capital from £12 million to £51 million. In 1920 Joseph Rank bought up large flour mills in Edinburgh, Birkenhead, and Selby. The railways were amalgamated into the four main-line companies—G.W.R., S.R., L.M.S., and L.N.E.R. The Royal-Dutch-Shell Combine extended its interests throughout the world.

Price-fixing organisations formed under government influence to regulate war-time prices stayed as instruments for maintaining

monopoly prices and profits. The *Workers' Register of Labour and Capital 1923* (issued by the Labour Research Dept.) quotes monopoly practices brought to light by committees set up under the Profiteering Acts of 1919 and 1920 in the following industries: soap, most building materials, sewing cotton, meat, cement, dyes, electric lamps (retail price found to be 50 per cent too high), explosives, iron pipes, salt, tobacco.

Associations of the capitalists for industrial and political ends were strengthened. Typical of these associations is the Engineering Employers' Federation formed " to protect and defend the interests of employers against combinations of workmen ". In 1922 its members included 2,500 firms with a combined capital of £500 million. Of special importance was the formation in 1916 of the Federation of British Industries, an organisation which has ever since campaigned untiringly to further the interests of capitalism.

Attack on the Workers. In the first two post-war years the capitalists faced a determined and militant working class, heartened by the struggles of the workers in Russia and elsewhere in Europe. The Clyde workers demanded a forty-hour week. The miners demanded shorter hours, higher wages, and nationalisation of the mines. In 1919 the railwaymen struck for a new agreement on wages and conditions. Wage advances were won in numerous industries—though these barely kept pace with the rising cost of living. For the rest, the government, wherever possible, played for time. They set up a Royal Commission on the coal industry, and, following the recommendations of a National Industrial Conference in 1919, began drafting Bills limiting the working week to 48 hours and providing for a minimum wage. The Coal Commission, under Sir John Sankey, reported in favour of nationalisation, but the Government evaded action and ultimately refused, although pledged to do so, to carry out the Commission's recommendations. Concessions had been made to the workers in order that the capitalists might gain time and then strike back.

In 1920 the capitalists began their counter-attack. The engineers' demand for 6d. an hour was turned down by the Industrial Court. The miners' claim in July 1920 for higher wages and lower coal prices was flatly opposed by the Government. In October 1920 the miners, though deserted by the railmen and the transport workers —their allies in the " Triple Alliance "—came out on strike. They won a conditional wage advance for five months. To arm themselves for the coming battles against the workers, the capitalists in October 1920 passed the Emergency Powers Act. In November and December unemployment began to mount, and in 1921 the slashing of wages began with the mining lock-out of 1921, to be followed by the engineering lock-out of 1922. The miner's wage per shift dropped from 20s. 3d. in January 1921 to 9s. 3d. in October 1922. Fitters and turners who in December 1920 had average weekly rates of 89s. 6d. were down to 57s. 6d. in September 1922. Shipwrights

were down from 91s. 3d. to 48s. 7d., weavers from 90s. to 50s. Porters from 72s. 6d. to 50s., and so on in many other industries. So began the years of poverty and unemployment in which Britain's industry remained backward and the capitalists sought to safeguard their profits by monopoly prices and cuts in wages.

The Temporary Stabilisation of Capitalism

The immediate post-war years witnessed great class battles and revolutionary struggles throughout the world, the struggles of the workers against the capitalists and of the colonial peoples against their oppressors. This period of revolutionary upheaval and economic dislocation, however, gave way in the early twenties to the period of the " temporary stabilisation of capitalism ". The revolutionary struggles in Europe suffered a set-back; there was an ebb in the revolutionary tide. The political defeat of the German working class in 1923 prepared the ground. The monopoly capitalists in U.S.A. were now confident that capitalism could stay in the saddle and began to pour money into Germany to make Europe safe for capitalism. By 1931 Germany's foreign indebtedness (mainly to U.S.A.) stood at over six billion dollars. That was the meaning of the famous Dawes Plan, which was ultimately to enable the German monopoly capitalists to drag Europe into a second world war.

By the end of 1923 the capitalists had regained political mastery everywhere in Europe outside the Soviet Union. Economic life could return to " normal ". Capitalism was able to consolidate its position, to become " stabilised ". However, Socialism in the Soviet Union was also able to consolidate its position and to grow stronger. There was a stabilisation of both capitalism and Socialism.

There was, however, a profound difference between these two " stabilisations ". The stabilisation of the Soviet Union meant improvement in the conditions of the masses and at the same time the creation of closer bonds between the Soviet Union on the one hand and the colonial peoples and the workers of all lands on the other. It meant growing industrial power, productive capacity, and military strength; it therefore meant greater independence and security. Socialism went on from strength to strength. The stabilisation of capitalism by contrast was inevitably temporary; its basis was increased exploitation of the workers and subject peoples. Workers' standards were attacked by direct forcing down of wages (as in the strike struggles of 1921 in Britain) and by inflation (as in Germany). There was capitalist rationalisation of industry, which meant growing intensity of work and went hand in hand with mass unemployment. This intensified the conflict between the capitalists and the workers, sharpened the contradictions of capitalist production, and prepared the way for a new economic crisis and new conflicts between the groupings of monopoly capitalists. " The stabilisation of the capitalist regime, the temporary strengthening

of capitalism, cannot but lead", wrote Stalin in 1925, "to an intensification of the antagonisms innate in capitalism (*a*) between the imperialist groups in the various countries, (*b*) between the workers and the capitalists of each land, (*c*) between imperialism and the colonial peoples of every country." (*Leninism,* Vol. I, p. 224.) It is in terms of these antagonisms and the confrontation of the capitalist and Socialist worlds that the history of capitalism between the two wars must be read.

Economic Theory Between the Two Wars

Despite the superficial appearance of capitalism's strength and prosperity in the later twenties, Marxists could see what was happening below the surface. Marxist science could lay bare the realities and see the deep contradictions that were leading capitalism to crisis. In 1928, therefore, the theses of the Sixth Congress of the Communist International were able to show that capitalism was passing out of the period of stabilisation into a third period "in which the contradiction between the growth of the productive forces and the shrinkage of markets has become particularly accentuated" and to state that this would lead "to a renewed disturbance of capitalist stabilisation and to the extreme aggravation of the general crisis of capitalism".

At the same time the capitalists and right-wing Labour leaders depicted capitalism as advancing from strength to strength. Calvin Coolidge, as president of the greatest capitalist power in the world, uttered the wisdom of capitalism when in December 1928 he said: "Enlarging production is consumed by an increasing demand at home and an expanding commerce abroad. The country can regard the present with satisfaction and anticipate the future with optimism."

The Labour leaders who rejected Marxism gaped reverently at the power of capitalism and sought to accommodate themselves to it. Philip Snowden said that "he did not agree with the statement of some of their Socialist friends that the capitalist system was breaking down" (*Daily Herald,* 17 April 1926). Hilferding, the German Social Democrat, declared in 1927 that a period of capitalism had begun "which in the main has overcome . . . sway of the blind laws of the market"; we were, he said, entering a period of *organised capitalism* which "signifies the suppressing, in principle, of the capitalist principle of free competition by the Socialist principle of planned production". The trade union right wing in Britain openly advocated collaboration between big business and the trade unions—the doctrine of Mondism, so called after Sir Alfred Mond (later Lord Melchett) of Imperial Chemical Industries Ltd. The theory of Mondism was typically expounded by Lord (then Mr. Walter) Citrine in the *Labour Magazine* (October 1927), when he wrote of collaboration between the capitalists and trade unions as "eliminating unnecessary friction and unavoidable con-

flict in order to increase the wealth produced and provide a steady rising standard of social life and continuously improving conditions of employment for the workers ". Other Labour leaders found their new prophet in Henry Ford. " If this is capitalism ", wrote H. N. Brailsford in the *New Leader* (1 October 1926, in an article entitled " Ford versus Marx "), " it is a variety which has discarded the fundamental principle on which Marx based his prediction ". The *Daily Herald* (9 September 1926) said that Mr. Ford reminded them of " a thoughtful Labour leader ". (All this of Ford, whose undertakings provide a copy-book illustration of so many of the developments that Marx discerned in capitalist production, such as the growing concentration of production, mechanisation and division of labour, intensification of labour, and increase in relative surplus value.)

In the period of the stabilisation of capitalism (1924-29) only the Marxists saw things as they really were. They saw what was going on below the surface, just as Marx in the mid-nineteenth century, the heyday of capitalist " prosperity ", not only pointed to the squalor and degradation that capitalism " at its best " created, but also saw the economic breakdown for which capitalism, for all its apparent well-being, was inevitably heading. However, the reformist Labour leaders preferred the capitalist economists to Marx; and it is an ironical fact that Sidney and Beatrice Webb—the father and mother of Fabianism, who rejected Marx for Alfred Marshall and did more than any one else to foster bourgeois economic theory and bourgeois ideas generally in the Labour movement—came at the end of their lives to recognise the superiority of Marx's understanding of capitalism. " Where we went hopelessly wrong ", wrote Beatrice Webb in 1938, " was in ignoring Karl Marx's forecast of the eventual breakdown of the capitalist system. . . . Karl Marx foresaw that the exploitation of land and labour by the private owners of the means of production, distribution, and exchange would lead inevitably and universally to a corruption and perversion of the economic system . . . that it would concentrate power in the hands of the wealthy and keep the wage-earners and peasants in a state of poverty and dependence; that it would produce a disastrous alternation of booms and slumps, with a permanent army of unemployed persons . . . [that] the profit-making motive would lead surely and inevitably, not to peaceful emulation between individual capitalists to lower prices and improve quality . . . but to a trustified and imperialist capitalism." (*Our Partnership*, p. 488.)

In the seats of bourgeois learning in the 1920s and 1930s the theory still prevailed that " peaceful emulation between individual capitalists " must lead to all being rewarded in accordance with their contribution towards production, to the utilisation of resources where best able to contribute to the common good, and so on. Slumps and booms were accidents originating outside the economic system, war was due to the wickedness of man and nothing to do with capitalism. The highest achievement of statesmanship in the

economic field must therefore be to leave " the laws of the market " to make themselves felt, to leave the self-perfecting system of capitalism to perfect itself through competition unimpeded by organisations—in particular trade unions—which prevent costs and prices finding their proper economic levels. However, although this theory of " perfect competition " remained the orthodox dogma reiterated in every textbook, the catastrophic events of capitalism's general crisis stimulated heresy. The orthodox theory was so far from the facts that it was in danger of falling into contempt.

Desertion from *laissez-faire*, the doctrine of leaving well alone, did not, however, necessarily mean desertion from capitalism. It might be argued that capitalism, left to itself, had its faults, but these faults could be remedied *without undermining capitalism itself*. Indeed, the doctrine of interfering with the economic system without doing away with capitalism thoroughly accorded with the views of the monopoly capitalists, who had always been advocates of interferences calculated to advance their own interests; for example, direct action to restrict capacity (such as National Shipbuilders' Security Ltd.'s plans for " sterilising " shipyards), tariffs as protection against foreign competition, and so on.

In the realms of higher theory, the changed world, the world of powerful trade unions and a few giant monopoly capitalists dominating industry, found expression in new theories such as those of Professor Chamberlin (*The Theory of Monopolistic Competition*—1933) and Mrs. Joan Robinson (*The Economics of Imperfect Competition*). These new tendencies were critical of the old capitalist orthodoxy, but—for all their well-aimed criticisms—they followed the same traditions as the theories they criticised. Because they confined themselves to the standpoint of capitalist theory, they produced, even where they intended otherwise, only new versions of capitalist theory. They did not expose the inner workings of the system they saw in upheaval all about them, nor the sharpening contradictions of capitalism in its monopoly stage nor the political consequences of the concentration of monopoly power.

New monetary theories also began to command attention, ranging from the staid views of Mr. Hawtrey on the shortcomings of banking and financial policy to the wild schemes of Major Douglas for making the world wealthy by the issue of consumers' credits. However, the great heresy of bourgeois theory (shortly to become the new orthodoxy) was the doctrine of J. M. Keynes, author in 1923 of *A Tract on Monetary Reform*, in 1926 of *The End of Laissez-Faire*, in 1930 of *A Treatise on Money*, and in 1936 of *The General Theory of Employment, Interest, and Money*—historically a product of the great crisis of 1929-32. In this latter work Keynes said that industry did not automatically reach equilibrium at the point of full employment of all workers and economic resources. Wage-cutting was not, therefore, an answer to economic crisis; a Government-guided investment and financial policy was needed to ensure a high level of

economic activity. Workers, Keynes argued, resisted cuts in money wages, and on this and on general economic grounds it was unwise to cut *money* wages; increasing economic activity and a high level of employment would result in rising prices, and might therefore lead to cuts in *real wages*. Cuts in this form were more acceptable to the workers and not harmful to economic activity in general.

Keynesian theory did good service for capitalism. When the theories of Alfred Marshall could no longer pass muster, the theoreticians of Social Democracy flocked to Keynes as the most plausible means of escape from Marxism and the class-struggle. (The Webbs alone had the honesty to declare themselves for Marx and " Soviet Communism ".) Keynes's theories were certainly in many ways different from the more orthodox theories, but they were built up on the same fallacies as orthodox bourgeois theories, and the essence of them was to propagate the false doctrine that capitalism could be made to work, that its contradictions and anarchy could be overcome, and that for this were needed only a few measures of central financial planning without disturbing the profit motive and private ownership of the means of production. Wherever capitalism was in difficulties, it sought to buttress itself with the theories of Keynes. Not only was Keynes the " prophet " of the New Deal; his name was also invoked in defence of Nazi economic theory.

The Great Crisis of 1929

The laws of motion of capitalist society paid, however, little regard to the pronouncements of capitalist theory. In 1929, the underlying contradictions of capitalism made themselves felt and the capitalist world was shaken by the most far-reaching crisis that it had ever suffered. The severity of this crisis was attributable to the fact that it took place against the background of—and intertwined with—the general crisis of capitalism. Industrial crisis was linked with agrarian. Between 1929 and 1932 the industrial production of the capitalist world fell by almost 45 per cent. In America industrial production dropped to below half the pre-crisis level; in Germany by 45 per cent, in England by almost 25 per cent.* Every branch of industry and every country, apart from the Soviet Union, was affected by the crisis. The crisis lasted longer than any previous crisis. Prices fell by almost a third in each of the major industrial countries. In 1931 England went off the gold standard. By the middle of 1934 only France, Switzerland, Holland, and Belgium remained on a gold standard; the old framework of

* The relatively lighter effect of the crisis in Britain must be seen against the fact that Britain's economy never fully recovered from the consequences of the First World War and the value of production failed even in 1929 to reach pre-war level. Britain's recovery was made the more difficult by her precipitate return to the gold standard in 1925—a move which, though damaging to British economy at home, was an attempt by the monopoly capitalists to safeguard their imperial and world-wide financial and commercial interests.

international credit, currency, and finance had been destroyed for all time. Reparations and war debts ceased to be paid. Almost every government of Central Europe and Southern America ceased payment against loans from abroad. When the debtor nations ceased to pay, the creditor nations naturally hesitated to throw good money after bad. The export of capital was no longer profitable, had become a heavy risk and so ceased. U.S.A., which in 1928 had exported $1,325 million, in 1933 only exported $1.6 million. Britain's export of capital to the colonies dropped from £219 million in 1928 to £30 million in 1933 and to foreign countries from £86 million to £8 million. Foreign trade collapsed throughout the capitalist world; the total volume of world exports (expressed in pre-crisis gold dollars) fell from $33 billion in 1928 to $12 billion in 1933. Industrial capacity which capitalism failed in this period of general crisis to use fully, even in boom years (for example, 67 per cent utilisation in Germany in 1929), stood idle everywhere (36 per cent utilisation in Germany in 1932). At the same time millions were added to the armies of unemployed. Industrial unemployment throughout the world tripled between 1929 and 1932. In Germany 44 per cent of the workers were unemployed in 1932; in England 25 per cent, in U.S.A. 32 per cent (figures available for trade unionists only), in Denmark 32 per cent, in Norway 31 per cent.

Such a catastrophic crisis, superimposed on the general crisis of capitalism, could not but have the most profound social and political consequences. The temporary stabilisation of capitalism had come to a violent end. America's great expansion of technical resources in years of prosperity could only, within the framework of capitalist production relations, prepare the way for a slump of unparalleled severity.

The crisis of 1929-32 demonstrated on the platform of history the correctness of Marxist science and the fatuity of the bourgeois and Social Democratic theories that had been peddled during the period of the stabilisation of capitalism. Socialist construction in the Soviet Union forged ahead free from the consequences of economic crisis, whilst the capitalist world floundered into chaos and despair. Between 1929 and 1933 industrial output in the U.S.S.R. more than doubled. In the main capitalist countries there was on an average a *fall* of over 25 per cent in the same period. In 1933 industrial output in the U.S.S.R. was almost four times pre-war; in Britain it barely attained the pre-war level even in the boom year of 1929, and in 1932 was about 20 per cent below pre-war. Whilst in U.S.A. production expanded in 1929 to 70 per cent above pre-war, it dropped back in 1932 to 10 per cent below pre-war.

The world crisis of 1929-32 greatly increased the tensions between and within capitalist countries. Japan made war on China and occupied Manchuria. Fascism came to power in Germany. An arms race began. Italy seized Abyssinia. The first steps were being taken along the road that led to the crushing of democracy in Spain and

to the Second World War. All the antagonisms of the capitalist world were sharpened by the crisis; the conditions of the workers were attacked, the exploitation of colonial peoples was intensified, the rivalry between the great imperialist powers sharpened. The danger of imperialist attacks on the Soviet Union increased.

The 1937 Crisis, Rearmament and War

In 1933 capitalist economy began to emerge from four years of economic crisis. "The economic crisis", said Stalin in his report to the C.P.S.U.(B) in March 1939, "which broke out in the capitalist countries in the latter half of 1929 lasted until the end of 1933. After that the crisis passed into a depression and was then followed by a certain revival, a certain upward trend of industry. But this upward trend of industry did not develop into a boom, as is usually the case in a period of revival. On the contrary, in the latter half of 1937, a new economic crisis began which seized the United States first of all and then England, France, and a number of other countries."

The crisis of 1937-8 was most marked in U.S.A. and Great Britain. In Germany feverish preparation for war sustained economic activity and the volume of industrial production showed an increase in 1938 over 1937. The economic crisis of 1937 did not follow the full customary course of an overproduction crisis, but became submerged in the Second World War to which the antagonisms and uneven development of capitalism gave rise.

Main Economic Characteristics of the General Crisis of Capitalism

In the years between the two World Wars the general crisis of capitalism in its imperialist stage was characterised and made manifest in the following ways:

(*a*) *Persistent mass unemployment*, and (*b*) *Persistent under-use of production capacity*. Even at the height of U.S. prosperity between 1925 and 1929 (according to Edwin G. Nourse in *America's Capacity to Produce*) one-fifth of the available plant was not used. In the slump of 1929 to 1934, of course, productive capacity stood idle and unused everywhere (in U.S.A. 42 per cent was unused in 1934, according to the German Institut für Konjunkturforschung). Only in the Soviet Union, where industrial production *rose by* 229 *per cent* between 1929 and 1934, was productive capacity fully utilised; there, there was an insatiable demand for capital equipment and great attention was paid to getting the utmost out of what was available.

(*c*) *World agrarian crisis* persisted through the 1920s and 1930s, but was, of course, intensified by the 1929 slump. "A new and international division of labour", writes Marx, "a division suited to the requirements of the chief centres of modern industry springs up and converts one part of the globe into a chiefly agricultural field of production for supplying the other part, which remains a

chiefly industrial field." (*Capital*, Vol. I, pp. 453-4.) The general crisis in the "chief centres of industry" (the imperialist countries), of course wrought havoc in the agrarian countries (mainly the colonies and dependent countries) that supplied industry with its food and raw materials. The impact of the crisis was least severe for the large-scale capitalist farm (such as a ranch or plantation), which because of technical superiority might be able still to make profits even in face of sharply falling prices.* The brunt of the crisis was borne by the peasant millions of the colonial countries. Using miserably primitive methods of production, squeezed by landlords and money-lenders, opposed by the laws and bayonets of the imperialist powers, swindled by the monopolies to whom they must sell their produce, the peasant masses faced ruin and starvation, their land was impoverished and its cultivation deteriorated.

(*d*) *Restriction schemes* (in this world of poverty and starvation), limiting production and the quantity of goods coming on to the market, were extensively introduced by the monopoly capitalists to safeguard their profits. Such restriction schemes were operated in the imperialist countries themselves as well as by means of international "commodity agreements" (such as the quota agreements for raw materials and foods). Examples are numerous; in Britain the Cotton Spindles Act of 1935 putting six million "redundant" spindles out of commission and burdening current production with a levy to compensate their owners, and the Woolcombers' Mutual Association Ltd. formed in 1933 "to assist the woolcombing industry by the purchase and dismantling of redundant and obsolete mills, plant, and machinery for re-sale under restrictive covenants against their further use for woolcombing"; in Brazil the destruction between 1930 and 1933 of 22 million bags of coffee; the Brussels agreement of December 1931 between the principal copper producers of the world to limit production to 26 per cent of the capacity of their mines.

(*e*) *Rapid growth in monopoly organisations;* the monopolies were able to throw the main burden of the 1929 crisis on to the shoulders of others. In Germany, for example, in 1933, monopoly prices were down 22 per cent on 1928, but free market prices had fallen by 55 per cent, and in Poland monopoly prices fell only 8 per cent when free prices fell by 51 per cent. Despite the break-up of many international cartels during the First World War, these were rapidly re-formed and new organisations were created in the post-war years. It is estimated that against some 100 international cartels in 1910 there were, in 1931, 320. To illustrate the extent of such organisa-

* The fall of prices was often very sharp. Between 1929 and 1933, for example, prices of jute, hemp, rubber, coffee, tea, cocoa, cotton and silk fell by something between one-half and one-third. Moreover, the price falls worked against agriculture; in U.S.A., for example, the prices of the goods the farmers sold fell by 60 per cent, but the prices of the goods they bought fell by only 30 per cent.

tions the following may be cited: the Rubber Producers' Convention controlled 97 per cent of world output (in 1936), the Electric Bulb Cartel 90 per cent (in 1934), the Copper Cartel 90 per cent (in 1932), the Potassium Syndicate 91 per cent (in 1932). The cartels were the scene of ceaseless manœuvring between the main groups of monopoly capitalists; their agreements represented the temporary balance of forces and the collapse of those agreements (which are no more than peace treaties in the unending conflicts between the monopolies) presaged the settlement of differences by trial of military strength. The crisis of 1929-33 strained many international cartel agreements to breaking-point; it paved the way to war.

(*f*) *Financial disorganisation and currency wars.* British monopoly capitalism lost to the U.S.A. its position as the financial centre of the world—in 1924 half the world's gold was in U.S.A., world trade was disrupted; political and economic fears caused unexpected movements of capital on a large scale; international exchange rates were disorganised during the post-war years of inflation and only temporary stability was ever regained; no general return to the gold standard was ever achieved and the manipulation of currencies was ceaselessly resorted to by the imperialist powers, particularly after the crisis of 1929, in order to gain trade or financial advantage over their rivals.

(*g*) *Tariff wars.* The imperialists used every means in their power to keep to themselves markets which came under their political control. The result was higher tariffs everywhere. Even in the most prosperous inter-war years, 1925-9, tariffs increased by 29 per cent in Germany, by 38 per cent in France, by 50 per cent in Belgium, and by 112 per cent in England. After the crisis of 1929 tariffs were further increased and new weapons (quota systems, embargoes, exchange restrictions, etc.) were freely used in the fight for markets. Britain, by the Ottawa Agreements of 1932, took vigorous steps to protect her Empire markets to keep rival capitalists out.

(*h*) *Accentuation of the uneven development of capitalism and struggle for the re-division of the world.* The advantages which the British monopoly capitalists gained from political control of a vast empire helped to save them from the full consequences to which the technical backwardness of British industry might have led. American exports to India were in 1930 only one-sixth of British exports, to South Africa less than one-third and to New Zealand one-third, to Malaya and Egypt less than one-fifth, to Australia one-half, and so forth. By contrast, American exports to Japan were four times and to China twice as great as those of Britain. Britain remained without question the greatest imperial power, but her economic might did not correspond to her imperial domain. Whereas in the latter half of the nineteenth century she had been the greatest industrial power in the world, she had by the 1930s fallen behind both U.S.A. and Germany. The following

table of steel production of the five greatest imperialist powers illustrates the unevenness in their economic developments.

Steel Production (in million tons)

	1880	1900	1913	1929	1932	1938	1947
Gt. Britain ...	1.3	4.9	7.7	9.8	5.3	10.6	13
Germany ...	0.7	6.4	18.9	16.2	5.8	23.2	2.7
U.S.A. ...	1.2	10.2	31.3	57.3	13.9	28.8	84
France ...	0.4	1.6	4.7	9.7	5.6	7.9	6
Japan ...	—	—	0.2	2.3	2.4	7.5	1

"The old division of spheres of influence between individual imperialist groups is continually coming into conflict with the new relation of forces on the world market . . . for the establishment of 'equilibrium' between the old distribution of spheres of influence and new relation of forces, periodic redivisions of the world are necessary by means of imperialist wars" (Stalin). The uneven development of capitalism and the ever more pressing necessity for the imperialists to capture new markets and spheres of influence, to expand in a world already "occupied" and divided out, set the stage for a new war.

Social Service Schemes and the General Crisis

"The bourgeoisie . . .", writes Marx, "is unfit to rule because it is incompetent to secure an existence to its slave within his slavery, because it cannot help letting him sink into such a state that it is compelled to feed him instead of being fed by him" (*Communist Manifesto*). In the period of the general crisis of capitalism the bourgeoisie is everywhere compelled to introduce, on a scale before unknown, social service schemes, unemployment benefits, works schemes, and so forth, in order to appease and to damp down the anger of the working class against an order of things that condemns hitherto undreamt of numbers from its ranks to idleness, poverty, and squalor.

State Capitalism

By *State capitalism* is meant (*a*) the ownership and operation of capitalist enterprises by the State, that is, the functioning of the State as a capitalist, and (*b*) the regulation, control, and so forth of capitalist and other commodity production by the State. The term State capitalism may, therefore, be applied to a wide range of State activities in the economic field from, for example, a State-run postal or railway system to controls over production and distribution of raw materials, bodies such as the Milk Marketing Board, control schemes for consumers' goods, etc.

In the highest, namely the imperialist, stage of capitalism, and, in particular, in the period of the general crisis of capitalism, there is a growing tendency towards State capitalism, although the rate and scope of development varies greatly from country to country according to political and economic circumstances and the general

historical background. For example, in the inter-war years, State capitalism was particularly highly developed in Japan and Germany, less—but still considerably—developed in England, and least developed of all in the United States.

The seeds of State capitalism were already clear to Frederick Engels when he wrote in *Anti-Dühring* (p. 305) (first published in 1878) that the " pressure of the productive forces, in their mighty upgrowth, against their character as capital, increasingly compels the recognition of their social character ". He then describes how boom and slump alike urge on the concentration of capital and the formation of huge joint stock companies and adds: " At a certain stage of development even this form no longer suffices; the official representative of capitalist society, the State, is constrained to take over their management. This necessity of conversion into State property makes itself evident first in the vast institutions for communication: the postal service, telegraphs, and railways." This statement Engels qualifies, however, by a most important footnote, in which he says " since Bismarck adopted State ownership a certain spurious Socialism has made its appearance—here and there, degenerating into a kind of flunkeyism—which declares that *all* taking over by the State, even the Bismarckian kind, is in itself Socialistic. . . . If [he goes on] Bismarck, without any economic compulsion, took over the main railway lines in Prussia, simply in order to be better able to organise and use them for war, to train the railway officials as government voting cattle, and especially to secure a new source of revenue independent of Parliamentary votes—such actions were in no sense Socialist measures, whether direct or indirect, conscious or unconscious."

In the epoch of imperialism when economic and political power is concentrated in the hands of a clique of millionaire industrialists and financiers, the State is subjected more and more to their direct influence. The monopoly capitalists make their will felt in a number of direct and indirect ways, in industry, in financial policy, through the press and through political parties which, as time and place require, they make use of with a versatility worthy of the Vicar of Bray. Their skill in using right-wing Labour leaders, for example, to twist Socialist phrases to serve monopoly capitalist ends has often been demonstrated—a type of " flunkeyism " of much the same pattern as the " Socialist " flunkeyism to Bismarck of which Engels wrote.

The First World War gave a great impetus to the development of State capitalism. With its ending most of the war-time controls were done away with, but the increased power of the monopolies remained, as did their use of the State machine to serve their own ends. Before the war, however, the imperialists had already gone a good way in their use of State capitalism. Lenin at the beginning of the First World War drew attention to this fact in his *Imperialism*, observing that " State monopoly in a capitalist society is never any-

thing else than a means of guaranteeing the income of millionaires who are on the point of going bankrupt in one branch of industry or another ".

At the same time State capitalism may be used against capitalism. If its general policy is directed towards fundamentally undermining capitalism, then it advances the transition to Socialism. If the general policy is not directed against capitalism, then it plays an anti-Socialist role. In the earlier years of the Soviet Union in 1918 and in the period of the New Economic Policy (1922-3) State capitalism played a most important role in the transition to Socialism. " State capitalism ", wrote Lenin in 1918, " would be *an advance* on the present state of affairs in our Soviet Republic." (L.S.W., Vol. IX, p. 165.) But he emphasised that all depended on the relationship of class forces, on who is master. " Let us take ", he says, " the most concrete example of State capitalism. Everybody knows what this example is. It is Germany. Here we have ' the last word ' in modern large-scale capitalist technique and planned organisation, *subordinated to Junker-bourgeois imperialism.* Cross out the words in italics, and in place of the militarist, *Junker*-bourgeois imperialist *State,* put a *State,* but of a different social type, of a different class content—a Soviet, that is, a proletarian State, and you will have the *sum total* of the conditions necessary for Socialism." (p. 169.)

The Soviet Union went forward to Socialism. In Germany, the militarists and the Junkers, the monopoly capitalists and the imperialists, remained in power, camouflaged at first behind a facade of Social Democracy. As a result of the crisis of 1929-32, however, in face of the extreme economic and political difficulties to which that crisis gave rise, the monopoly capitalists turned to the most shameless demagogy and deceit allied to barbaric terrorism and used fascism as their political instrument for so doing. State capitalism, lyingly styled National *Socialism,* or the Corporate State, did service for the bloody tyranny of the monopoly capitalists known as fascism.

Fascism

Capitalist democracy hampers the unrestricted dominance of the monopoly capitalist clique; they therefore fight against democracy. " The political superstructure of the new economy of monopoly capitalism ", writes Lenin, " is the turn from democracy to political reaction. Democracy corresponds to free competition. Political reaction corresponds to monopoly." (*Collected Works,* Vol. XIX, p. 229.) The sharper the antagonisms of capitalist society and the greater the difficulties confronting the capitalist class become, the more eagerly the monopoly capitalists turn away from democracy towards political reaction. The first appearance of fascism was in the revolutionary crisis that immediately followed the First World War in Hungary, Italy, Bulgaria, and Poland.

The great crisis of 1929-32 sharpened the antagonisms of the capitalist world to an extreme degree. The monopoly capitalists, eager to maintain the profitability of their undertakings, supported any measures that reduced the workers' standards and transferred the burden of the crisis on to them and the middle classes and petty bourgeoisie. Each imperialist power sought to increase its profits at the expense of small nations and colonies falling within its sphere of influence; each tried to strengthen its own position at the expense of rival imperialist powers. The antagonism between the Socialist world and the capitalist world became sharper, for not only did the imperialists hunger to exploit Russia as a colony, but they saw clearly how the example of the Soviet Union's growing strength inspired the struggle of their own colonies and their own workers against themselves.

Under these circumstances, monopoly capitalism in Germany became unstable in the extreme. The volume of output, which in 1929 had been restored to 13 per cent above pre-war, dropped in 1932 to less than 60 per cent of the 1929 level. Two in every five workers were unemployed. The petty bourgeoisie, already ruined by the post-war inflation, were again plunged into poverty and despair. In this precarious position monopoly capitalism unreservedly put its money and its influence behind the Nazis, a divided working class failed to stop them and Hitler came to power.

The Nazis at once began their preparations for war. War expenditure, which in 1932 accounted for 2 per cent of the national income, reached 10 per cent in 1934, exceeded 20 per cent in 1937, and 40 per cent in 1939. This militarisation of the economy reduced unemployment. (Of this Hitler boasted as an economic achievement, but militarisation in all capitalist countries led to this same "achievement".) Long hours were worked and the incomes of the working class as a whole rose by comparison with the years of crisis and unemployment, but real wages per hour fell. J. Kuczynski (*Labour Conditions in Germany Under Fascism*, pp. 105 and 116) estimates that real wage rates fell between 1932 and 1937 by 10 per cent and that the total incomes of wage and salaried workers increased by about one-quarter, whereas the incomes of employers and other non-workers increased two-and-a-half times.

The vaunted economy of Nazi Germany with its high level of economic activity (industrial output in 1938 was 25 per cent above 1929 as against 12 per cent in Britain and 28 per cent *below* in U.S.A.) was nothing but a war economy. It fulfilled a double purpose: it equipped Germany for aggression and it gave huge profits to the monopoly capitalists whose stronghold was in heavy industry. From the start the control of Germany's "planned economy" was in the hands of their millionaires. The Supreme Economic Council appointed in 1934 included Krupp von Bohlen (armament manufacturer representing capital of £15 million), Fritz Thyssen (steel, £540 million), von Siemens (electrical industry, £12½

million), Karl Bosch (Dye Trust, £55 million), A. Vögler (steel, £40 million), A. Diehn (potash, £10 million), von Schroeder (banker). The same story was repeated in all the organs of Germany's " State-controlled " economy. For example, Krupp, von Schroeder, and other big business men of this type formed the Executive Board of the National Railways. State-controlled German economy certainly was, but the monopoly capitalists might well have said: " The State, it is us! " They, together with a handful of Nazi adventurers such as Goering, Goebbels, and Hitler, who had acquired vast personal fortunes, owned and ruled Nazi Germany.

The German monopoly capitalists had far-reaching international connections. In the world of banking the House of Schroeder (originally founded 130 years ago in Hamburg) had separate establishments in London and New York. Here would be links with the most powerful interests in international finance. For example, John Foster Dulles, a foremost figure of U.S. reaction and big business, was closely associated with the Schroeder Bank in New York. Dulles was also one of the authors of the " Dawes Plan " in which the title role was played by Charles G. Dawes, a banker of the House of Morgan. (The Dawes Plan, it will be remembered, after the crushing of the German working class, provided in 1924 for vast American loans to Germany as a result of which German monopoly capitalism was put firmly on its feet again.) The worldwide ramifications of German monopoly capitalism may be seen in the connections of I.G. Farbenindustrie, the giant chemical trust. It had assets in ninety-three countries and cartel agreements with major concerns in America, Britain, France, Norway, Holland, Belgium, and Poland. " All cartel agreements ", writes *The Times* (May 1947), with reference to the arraignment of I. G. Farbenindustrie at the Nuremberg Trial, " were cleared by Farben through the military economic staff of the Wehrmacht. Their deliberate purpose was to restrict industrial development and scientific research outside Germany . . . it is related how a cartel arrangement among Farben, the Aluminium Company of America, and the Dow Chemical Company greatly restricted the production of magnesium in the United States and prohibited exports to Europe except to Germany and, in negligible amounts, to Great Britain. Thus Britain and the rest of Europe became completely dependent upon Germany for magnesium." I. G. Farben had since the 1920s been closely associated with the American Standard Oil Company, owning a number of companies in U.S.A. jointly. The Nuremberg indictment describes how cartel agreements between the two companies delayed the development of Buna rubber in the U.S. until 1940. (Mr. Richard Sasuly records in his book, *I. G. Farben*, that after the outbreak of war, but before U.S.A.'s entry, agreements were reached which were to operate through the term of the war, even if the U.S.A. came in.)

The indictment made before the Nuremberg Court strikingly

illustrated the association of monopoly capitalism and fascism. " In the early days ", again to quote *The Times* (May 1947), " Farben saw in Hitler and his movement the possibility of extending its empire . . . with the unleashing of war, Farben, it is alleged, entered upon a systematic programme of spoliation by seizing the chemical industries of the over-run countries. But by the time France was defeated Farben's dreams of world conquest under its own New Order, a document of several thousand pages setting forth detailed schemes for the whole of Europe's chemical production, were rivalled only by Hitler's. . . . Finally . . . I. G. Farben . . . is charged not only with a share of responsibility for the slave labour programme in drawing upon foreign workers for its factories, but by the construction on its own recommendation of a buna plant at Auschwitz, of direct complicity in the human sufferings and murder of the concentration camps."

With the ending of the war, the death sentence of I. G. Farbenindustrie was, it seemed, pronounced in the Potsdam Agreement; but the sentence was not executed. In the Western zones (there are fifty-five undertakings owned by I. G. in the American zone) British and American policy fought to save the life of monopoly capitalism. The same people who had been in charge of industry when fascism ruled were back in the saddle. New international connections were established; the German industrialists, smashed by the military defeat of Nazism, were to be resuscitated once again to stand guard for reaction in Europe. The post-war position of the German ex-monopoly capitalists and their henchmen was, of course, a more humble one than it used to be.

The post-war relationship of American monopoly capitalism to Germany has perhaps some resemblance to that of Germany to the capitalist interests in Nazi-occupied Europe—namely, a network of alliances and conflicts of monopoly capitalist interests dominated by the German gang who subordinated the foreign capitalists to themselves and used them as their tools in the ruthless subjugation and exploitation of the peoples of the occupied countries.

The economy of all Europe was ruthlessly brought under the control of the German monopoly capitalists. All Europe was looted to serve their ends. German industry was built up; the mission of the rest of Europe was, at best, to provide food and raw materials for the Vaterland. Industry which did not serve their purposes was destroyed, the economies of the subjugated nations were ruined and their peoples were ruthlessly exploited, used as slaves and cannon-fodder, transported from their homes, or, if of no use to German monopoly capitalism, left to starve.

The war revealed to the full the true nature of Nazism. However, from the earliest days after Hitler's accession to power, despite the anti-capitalist phrases used by the fascist demagogues, no measures were in fact taken by the Nazi Government against the interests of

big capital; the anti-capitalist measures to which they gave so much publicity were mere window-dressing. For example, the limitation of dividends to 6 per cent (which was anyhow easy of evasion) allowed the big trusts to pay more than they had in the years of depression and, of course, did nothing to interfere with the payment of generous " expenses " and salaries to directors and other highly placed officials. From the very first years of Nazi rule the trusts increased the capital under their control; and industrial interests taken over by the State prior to Hitler were returned to private ownership in many instances. Everywhere it was the big capitalists who were in control.

Marxists saw clearly at the time of its development in Germany (as in Italy previously) that fascism was the creature and servant of monopoly capitalism. R. P. Dutt, for example, in 1934 in his *Fascism and Social Revolution* wrote, " Fascism . . . is a movement of mixed elements, dominantly petit-bourgeois but also slum proletarian and demoralised working class, financed and directed by finance capital, by the big industrialists, landlords, and financiers, to defeat the working-class revolution and smash the working-class organisations ". Dimitrov, in his speech to the Communist International in 1935, defined fascism as " the open terrorist dictatorship of the most reactionary, most chauvinistic, and most imperialist elements of finance capital ". Since the end of the Second World War the factual evidence that has become available (including particulars about huge sums which German big business—Thyssen, Krupp, I. G. Farbenindustrie,* etc.—put at Hitler's disposal) has placed the correctness of the Marxist analysis beyond all possibility of doubt.

Nazi fascism was demagogic in the extreme; it sought mass support by lying promises which played on the anti-capitalist feelings of the people. The Nazis called themselves National *Socialists* and passed off State interference on behalf of the monopoly capitalists as Socialism. They claimed to be anti-capitalist, but in fact only the small capitalists were attacked in order to advance the interests of the big. The German imperialists sought to buy the loyalty of their own people (in part successfully) with dreams of rich fruits of conquest and the present comparison of their own fortunes, poor as they were, with the extreme destitution of the subject nations. They bribed and corrupted a section of the people with privileges and position in the Nazi hierarchy in order to use them to crush all that was decent and honest in Germany, all who might fight for freedom and progress. They fed the fears of a people who had known war and two profound economic crises within one

* *The Times*, May 1947, records: " When Hitler asked the industrialists for aid before the elections of March 1933, Farben headed the list of contributions with 400,000 Reichsmarks; by the end of the year the Government had guaranteed a large expansion of the Farben synthetic petrol plants, and discussions had begun on synthetic rubber research and the construction of a secret magnesium plant."

generation with monstrous lies about Communism, which contained no particle of truth beyond their reflection of monopoly capitalism's own fear at its impending doom. They fanned racial hatreds in the hope of turning the anger of the people away from themselves. However, the essence of fascism was, at home, ruthless war on the working class, destruction of trade unions, and working-class parties, torture and physical extermination of working-class leaders, concentration camps, death chambers, and so on; and abroad, war for world domination, plunder of nations and enslavement of peoples, the crushing and utter destruction of Socialism. That is what fascism was proved in fact to be.

CHAPTER XIII

THE DEEPENING OF THE GENERAL CRISIS OF CAPITALISM AND THE ADVANCE TO SOCIALISM

Manifestations of the deepening general crisis of capitalism—The camp of Socialism and peace, the camp of imperialism and war—The dominance of U.S. monopoly capitalism and its policy of war—The role of Social-Democrats—Strength of Socialist forces throughout the world.

"The end of the Second World War", said Zhdanov, reviewing the international situation in September 1947, "brought with it big changes in the world situation. The military defeat of the bloc of fascist States, the character of the war as a war of liberation from fascism, and the decisive role played by the Soviet Union . . . sharply altered the alignment of forces between the two systems—the Socialist and the capitalist—in favour of Socialism."

The aftermath of the Second World War witnessed a profound deepening of the general crisis of capitalism. All the complexity of the post-war events is epitomised in this fact. The general crisis began during the First World War and was, said Stalin, characterised by the fact that capitalism no longer represented the *sole* and *all-embracing* system. Socialism existed alongside of capitalism, demonstrated the rottenness of capitalism, and shook capitalism to its foundations. Such already were the consequences of the existence of a Socialist State even in its first days of weakness and difficulty. Since then, however, the land of Socialism has grown to a mighty stature. Its moral, political and economic power and resilience have been demonstrated in peace and war and in its ability to recover from the devastations of the fascist criminals. Now, once again, the Soviet Union, despite the foul and murderous wounds inflicted by the aggressors, strides forward again more confidently than ever towards the goal of Communism.

The effect of this inspiring example upon the millions of oppressed and exploited peoples throughout the world has been incalculable. The most reactionary imperialists in every land had hoped to see Socialism laid low by the aggressive militarism of Germany and Japan. Instead it was the German and Japanese imperialisms that were laid low. Their defeat gave a strong impetus to the working class and popular forces within the imperialist countries themselves. The capitalists faced new demands and stronger organisations. At the same time they faced the vigorously pressed demands and the organised struggles of the colonial and other peoples subjected to imperialist exploitation. And now, not only was capitalist imperialism no longer the sole and all-embracing system; in addition its field of operation was being rapidly reduced. In Poland, Hungary, Albania, Rumania, Czechoslovakia and Bulgaria the state power had been won by the people and, under the protection of the people's democratic dictatorship, Socialism was being built and

the door was barred to imperialism. Here war-shattered and impoverished economies were being rebuilt to serve the needs of the people. Advanced economies based on their own industries and freed from foreign capital were being developed and made strong. The peasants were freed from the exactions of a repressive landlord class. Standards of living were being rapidly raised. Inflation was brought under control and prices of consumer goods were reduced.

Meanwhile, neighbouring Europe under capitalism faced rising prices, unemployment, disorganised trade, loss of independence and the crippling burden of war expenditure. The contrast further demonstrated the rottenness of capitalism and shook capitalism to its foundations. The great construction projects of Communism stood face to face with imperialism's projects of destruction. Socialist achievement cast its shadow over capitalism at every turn, stimulating the capitalists to have recourse to countless new forms of demagogy in defence of their dying system, to endless lies and misrepresentations about conditions in the socialist communities, to filthy vilification and blind desire to fill the whole world with death and desolation in the hope of escaping the demonstration of their own rottenness.

The liberation of China in 1949 from the domination of foreign imperialism and the internal allies of foreign imperialsm, namely the "bureaucratic-capitalists" and the feudal landowners mustered about Chiang Kai-shek, has set 450 million people on the road to freedom and prosperity. Under the leadership of Mao Tse-tung and the Chinese Communist Party, industries formerly owned by foreign monopoly capital or Chinese "bureaucratic capital", which served as the agent of foreign capital, are being taken over to provide the basis of a rapidly developing socialist sector of industry; the peasantry is being freed from the throttling oppression of the landlords and given every assistance to develop the yield of their lands. Under the guidance of the People's State, the growth of industry and trade, which rested largely in the hands of the national anti-imperialist bourgeoisie, is being rapidly developed. These historic events are a beacon light to all Asia and to oppressed peoples throughout the whole world. The existence of China, freed from imperialist domination, demonstrates the rottenness of imperialist rule. The achievements of the Chinese People's Republic cast their shadow over imperialism at every turn.

The general crisis of capitalism has, therefore, deepened profoundly in the sense that the camp of Socialism and People's Democracy has become much greater, much more powerful and an even greater inspiration to the masses of the people. This factor enters into every economic situation. It confronts the exploiters with new demands from those they exploit, forces them to endless political subterfuges in their attempts to disguise their real relationships with those they exploit, and turns them to desperate courses

of violence that surpass even the most aggressive ambitions of their fascist predecessors in Germany and Japan.

However, the weaknesses of imperialism do not derive solely from the fact that it is no longer the sole and all-embracing system. Its weaknesses arise also from its own internal difficulties. Every contradiction within the imperialist world has become accentuated. Capitalism has developed with extreme unevenness, with the result that productive capacity has increased within the industrially advanced countries and within the most powerful monopolist trusts in those countries, while in other parts of the capitalist world there is economic stagnation, poverty and unemployment. The gulf between the productive capacity of capitalism and the consuming power of the masses has become wider. Within the short space of three years from the end of the war the post-war boom began to collapse, and it became quite clear that an economic crisis was developing in the U.S.A. At the same time the bankruptcy of the U.S. imperialists' plans to make China their colony through the agency of their puppet, Chiang Kai-shek, became indisputably apparent. Confronted with this situation the U.S. imperialists embarked upon war preparations on a hitherto unheard-of scale, involving the whole of the capitalist world in their projects. Rising prices, due to speculation in war materials, and inflationary tendencies that were aggravated by the additional Government expenditures for war, further limited the purchasing power of the masses throughout the capitalist world and further disrupted trade. Inevitably this accentuated the antagonisms between the workers and the capitalists and between the colonial and subject peoples and the great imperialist powers. At the same time the conflict of interests became sharper between the imperialists themselves. The American imperialists sought to exert their dominance in every quarter of the capitalist world; the British imperialists, seeing their own continued exploitation of the colonial peoples as dependent on alliance with the American imperialists, submitted to American demands, while trying to defend their own separate interests. German and Japanese monopoly capitalism, resurrected under the tutelage of U.S. imperialism, began to challenge British export markets. American agents competed with British agents in suborning puppets to their cause amongst the "backward peoples" of the Middle East and Asia, and in the very process of so doing further roused the hostility of the masses against intervention in their affairs. In short, at every point within the imperialist world the contradictions were becoming sharper and each new difficulty increased the desire of the imperialists to seek a solution in war. In the world of Socialism, on the other hand, each year that passed gave added economic strength and increased internal unity and harmony.

The Camp of Socialism and Peace

"In the U.S.S.R.", said Stalin in his report to the Sixteenth Con-

gress of the C.P.S.U.(B) in 1930, "the growth of consumption (purchasing capacity) of the masses constantly outruns the growth of production and stimulates it, while there, under the capitalists, on the contrary, the growth of consumption of the masses (purchasing capacity) never keeps pace with the growth of production and constantly lags behind it and again and again dooms production to crises."

A fundamental difference distinguishes the course of development in the Soviet Union and the other lands that are building Socialism, on the one hand, and the lands that fall under imperialist rule, on the other. The difference is the difference of economic system. In the socialist systems the workers hold state power; they and the peasants own the means of production, the land and the factories; production is not for profit, but for use; it is not throttled by the uncertain conditions of the market but planned to meet the needs of the people, to raise their material and cultural standards. "Consumption . . . . constantly outruns the growth of production and stimulates it." In the lands of Socialism there is no problem of surplus capacity, no problem of markets being inadequate to absorb the potential output of industry, no capitalists thrusting outwards for new markets and new spheres of interest to ensure profits to their capitals which, to live, must make profits, and, to make profits, must expand. Whereas each capital within the system of capitalism frets at the inadequacy of its market and constantly seeks to go beyond its own orbit, within the system of Socialism expanding production is hard put to it to keep pace with the requirements of the people. It has absolutely no incentive to thrust out beyond its own orbit. Socialism does not, therefore, strive to intrude into new territories; it does not look beyond itself; it seeks only freedom from interference and freedom to use its own resources to meet its own needs. Socialism, therefore, stands for peace. Because its economic basis is a *Socialist system* the U.S.S.R. strives might and main to preserve the peace of the world so that it may be left free to hasten forward its great works of socialist and communist construction. It is precisely because it is the land of Socialism, that the Soviet Union stands forth as the leader of the millions of working people in every corner of the earth who yearn for peace.

And what more trusted guardian of peace could there be, for what country has known more of the bitter taste of war?

The U.S.S.R. suffered a greater amount of physical destruction during the Second World War than any other country: 2,000 towns, 70,000 villages, and factories employing 4 million workers were partially or wholly destroyed, and 25 million persons were rendered homeless. On top of this the south-western portion of the U.S.S.R. (mainly the Ukraine) was in 1946 afflicted with a drought of unparalleled severity. However, despite these immense losses and appallingly heavy casualties, industry and agriculture were restored with great rapidity, and by the fourth quarter of 1947 were back

to the pre-war level. Each post-war year brought a rapid increase in the quantity of consumers' goods available. At the end of 1947 (by the currency decree of December 14) the inflated war-time prices were eliminated and a new stable currency introduced; at the same time food rationing was abolished. By 1951 there had been four successive price reductions ranging from 35 per cent to 70 per cent.

The great strength of Socialist production in the U.S.S.R. was shown (*a*) by the military power of the Soviet Union put to the proof during the war; (*b*) by her ability to switch resources to meet war-time needs; and (*c*) by her ability to switch back to peace production. The post-war reconstruction of the Soviet Union outstripped that of the capitalist countries and showed to the world the strength and resilience of Socialist planning. If there had been no war, the economic development in the Soviet Union would have been considerably more rapid, as may be seen from the following table:

	1940 (actual)	*1942 Target under Third Five-Year Plan*	*Target for 1950 under Post-War Plan*	*Capacity destroyed by Germans (million tons)*
Pig-Iron (million tons)	15	22	19.5	11
Steel (million tons) ...	18.3	27.5	25.4	10
Coal (million tons) ...	166	243	250	
Oil (million tons) ...	31	54	35.4	5
Electy. (milliard kwt.)	48	75	82	
Grain (million tons)...	119	130	127	
Cotton Cloth (million metres)	2,491 (1938)	4,900	4,686	

By 1951, however, the output of Soviet industry was already double that of 1940. The countries of Eastern Europe which had fallen under Nazi rule confronted at the end of the Second World War economic difficulties of extreme severity, on three accounts: (*a*) they were in the main industrially backward countries burdened with semi-feudal forms of exploitation and externally in pawn to foreign capital; (*b*) they were plundered and ravaged by Nazi occupation; (*c*) the battles fought in their cities and lands caused heavy destruction. For example, industrial production in 1945* was 47 per cent of pre-war in Poland, and 50 per cent in Czechoslovakia. The livestock population of Eastern Europe amounted to one-half of pre-war. Crops were poor. The 1944-45 harvest of all grains fell far below pre-war, being 39 per cent in Poland, 58 per cent in Czechoslovakia, 52 per cent in Bulgaria, and 57 per cent in Hungary. Unfavourable weather supplemented the effects of soil exhaustion during the occupation, shortage of fertilisers, and depor-

* In most cases third quarter figures are given.

tation of agricultural workers for forced labour in Germany.

In each of these countries economic disorganisation and extreme shortages of every kind caused prices to rise and brought a serious threat of inflation. However, strong measures were taken to crush out speculation. Far-reaching land reforms were carried through—big estates broken up—and considerable sectors of industry were nationalised. They rid themselves of the control of foreign capital. (Previously foreign capital owned, for example, 30 per cent Hungarian banks, 90 per cent Rumanian oil industry, in Bulgaria 50 per cent chemical industry, 30 per cent textile, almost 100 per cent sugar and flour-milling, 75 per cent power, and nearly 70 per cent tobacco.)

National Economic Plans were drawn up to direct economic resources toward the most urgent needs and to mobilise the energies of the people. The Czechoslovak Two-Year Plan (1947-48) provided for the reconstruction of the economy and an increase of output by the end of 1948 to 10 per cent above the 1937 level. The Czech Two-Year Plan was followed by a Five-Year Plan, designed to carry production 60 per cent above pre-war and 50 per cent above 1948. Poland's Three-Year Plan for Reconstruction provided for an increase in production of capital goods to double pre-war, a considerable increase in consumer goods, and a raising of food output per head to 10 per cent higher than pre-war. Achievements of a similar kind came from plans which shaped the economic development of the other countries of Eastern Europe.

By mid-1951 industrial production in Poland and Hungary was two-and-a-half times above pre-war; in Bulgaria three times; in Albania four times; in Rumania double; and in Czechoslovakia more than one-and-a-half times. In 1951 the German Democratic Republic embarked upon its first Five-Year Plan designed to double production. In China by 1951 land reform affecting two-thirds of the population had already been carried out, and great steps had been taken towards the development of industrial production. The developments in the field of agriculture in China and the People's Democracies of Eastern Europe were of outstanding importance. The seizure of state power from the imperialists and the exploiters liberated vast creative energy amongst the masses of the people which was turned to the rehabilitation and building up of their national economies. Developing industry helped agriculture. Increased production of food and raw materials in its turn created the conditions for industrial expansion. The situation in agriculture was transformed by removing from the peasants the yoke of the landlords and capitalist exploiters and giving the land to those who cultivated it. This also led to the disappearance of the impoverished, propertyless agricultural labourers. These reforms of themselves led to vast improvements in the living standards of the mass of the peasantry. At the same time the dominance of village life by rich peasants (kulaks) was checked.

Throughout, the People's Democracies received invaluable help

in their agricultural developments from the Soviet Union. This enabled them to supply fertilisers, machinery and high quality seed and technical advice to the peasant farmers. In the People's Democracies of Eastern Europe, by 1951 1,100 state-owned machine and tractor stations had been opened, and quantities of machinery, many times pre-war, came into current use. These developments provided a basis for transition to co-operative farming, the advantages of which became more and more apparent to the peasantry from their own experience and from the example of the Soviet Union. Thus while adhering strictly to the principle that co-operatives could only be formed on a voluntary basis, there began within the People's Democracies a movement away from individual farming towards larger scale farming on a collective basis in which each producer shared in the increased output according to the "workday units" he performed. As a result of all these measures yields were greatly increased. In Rumania, for example, wheat yields per acre increased in 1950 by 14.1 per cent over 1949 and in 1951 by 80 per cent over 1950.

In the Capitalist World

The condition of the peasantry in the capitalist world was vastly different. Burdened with taxes, usury, the oppression of landlords, corruption and bureaucracy of officials, continual inflation in the prices of industrial goods, poverty and disease worsened by comparison even with the appalling conditions of pre-war. The rulers of the capitalist world promised their "Colombo Plans" and "Point Fours", but nothing came of all this, for a system based on exploitation and the contradictions of production for profit is unable to advance the living standards of the masses it exploits. Such sums as the great imperialist powers spent for the "advancement" of backward countries were used either for military purposes or else tended to find their way into the pockets of their corrupt agents.

The absolute impoverishment of the masses subjected to the economic and political domination of the great imperialist powers increased; living standards in Asia and the Far East were in 1950 lower than even in the 1930s; United Nations experts stated in 1951 that "only a small part of total private investment since the war has contributed to the development of backward countries. The greater part of government grants and credits has also tended to be concentrated in a few main countries on the basis of special political relationships or urgent relief problems". (U.N. *Survey of Europe* 1950.) Capitalism was unable to do anything for the poverty-stricken millions of the world except perpetuate the causes of their increasing poverty.

The Dominance and Warlike Aims of U.S. Imperialism

Lopsided concentration of capital in the hands of the biggest monopolies and particularly those of the U.S.A. created large areas

of economic stagnation outside the immediate spheres of operation of the big monopolies; there was. therefore, alongside the expansion of the productive capacity controlled by the biggest monopolies, restriction of the purchasing power of the masses; alongside the concentration of the means of production and the hoarding of raw materials by the U.S.A., inability by the economically weaker countries to buy the goods which the U.S.A. produced. This situation found expression in the persisting unemployment and miserable living standards in many countries. It found expression also in persistent difficulties in the field of international trade and continuing "dollar shortages" which were met by huge U.S. loans and grants. These loans and grants provided the U.S. capitalists with means of maintaining overseas markets and of bringing ever wider areas under their dominance. Thus every aspect of the situation in the capitalist world was coloured by the fact of U.S. dominance.

The relatively high level of U.S. production at the end of the war in comparison with the low level in the rest of the capitalist world is shown by the following table giving the level of production (*a*) of the U.S.A. and (*b*) of the rest of the world (excluding U.S.S.R.) as a percentage of what it was in the same countries before the war:

	(1937 = 100)	*1947*
	United States	*World (excluding U.S.)*
Coal	133	81
Electricity	211	138
Steel	147	65
Zinc	144	72
Cement	153	80
All Industrial Production	165	89

(Figures from *Economic Report on Salient Features of the World Economic Situation,* February 1945-47 and *Selected World Economic Indices,* United Nations Department of Economic Affairs.)

During the war the industrial capacity of the U.S.A. increased by about 40 per cent, the labour force in industry by 60 per cent, productivity by about 25 per cent, and the volume of industrial production by about 120 per cent. In 1946 approximately two-thirds of the total manufacturing output of the capitalist world was concentrated in the U.S.A. The inherent weaknesses of even the strongest capitalist economy were revealed in the immediate post-war years by the sharp fall from its war-time peak. Production of durable goods which in 1945 was three and a half times pre-war was in 1947 down by 40 per cent (though it remained more than double pre-war). Over the same period total industrial production fell by some 20 per cent. However, U.S. production remained in the immediate post-war years far above the pre-war level.

At the end of the year the general level of U.S. prices rose by one-third in the twelve months 1946-7. The dollar resources of all other countries were therefore the more rapidly exhausted, even though the bulk of the trade with the U.S.A. was not financed out of the resources of the importing countries. In the two years following the end of the war, U.S.A.'s export surplus totalled $16,700 million, of which $6,000 million was financed by " unilateral transfers " (such as U.N.R.R.A. contributions) and the balance by exports of capital and sale to the U.S.A. of foreign capital and gold held there. The measures taken by the U.S. State to support the export surplus (such as loans financed out of taxation falling on the American people as a whole) provided a source of vast profits for the U.S. capitalists, who sold their commodities at inflated prices.

During the war vast profits had been accumulated, particularly in the hands of the biggest monopoly capitalists who secured for themselves the lion's share in the munitions orders. One hundred corporations (firms) received two-thirds of the war contracts (which amounted in all to $175,000 million). One corporation on its own received contracts worth about $14,000 million. War-time profits amounted to $52,000 million. Consequently the extreme concentration of economic power in the U.S.A. was carried still further. (Some facts about the handful of multi-millionaires who own America were given in Chapter IX.) U.S. capital invested abroad increased from $13,000 million in 1943 to $40,000 million in 1947. This belonged mainly to a few big interests; 385 enterprises organised in 100 corporate groups owned 70 per cent of the total.

During the immediate post-war years the contradictions inherent in American capitalism were still further intensified. The most reactionary imperialist elements launched attacks on labour (for example, ceaseless persecution of Communists and the Taft-Hartley Anti-Trade Union Act) so as to hold back wage increases. At the same time vast expansions of productive capacity were undertaken. The annual rate of business investment *in fixed capital alone* rose from $8,500 million in the second quarter of 1945 to $23,600 million in the third quarter of 1947. That is, U.S. investment in fixed capital alone in 1947 equalled about three-quarters of Britain's national income.

"Imperialism", said Lenin, "is the epoch of finance capital and of monopolies, which introduce everywhere the striving for domination, not for freedom." The sharpened contradictions of capitalism, intensified by its uneven development, goad on the American monopolies to seek world domination. The American monopoly capitalists are well aware that the whole capitalist system is on trial and that it is Communism that has brought it to trial. More particularly, however, the American monopoly capitalists seek to retain monopoly control of the foreign markets they won during the war and to win new markets; they seek to make overseas territories safe for the investment of American capital; the difficulties confronting British imperialism and the virtual elimination of other imperialist powers

provide favourable opportunities for expansion at their expense; the "costs of expansion", namely U.S. "aid" and military expenditure, provide U.S. capitalism with highly profitable orders. The policy of aggression not only follows "the natural destiny" of imperialism, it also gives profits here and now.

Monopoly capitalism in the U.S.A., aided and abetted by British monopoly capitalism, disregarded all the promises made during the war of co-operation between the socialist world and the capitalist world. It cared nothing for the Soviet Union's vast sacrifice of men and material means of life in the defeat of fascism. It began with little delay to turn all the means of propaganda under its control, Press, radio, and politician, to the task of vilifying the Soviet Union and of attacking everywhere the advance of Socialism, and the popular forces, which presented the main obstacle to the advance of U.S. imperialism towards world domination.

The monopoly capitalists, of course, wanted to be free to use their money and economic power to attack Socialism and to defend reaction and so threw aside the agreement of economic co-operation made at Teheran and Potsdam and substituted machinery designed to secure subservience and subordination to American capital. The first stage in the American plan for world dominance was the subordination of the rest of the capitalist world by means of financial pressure. The Marshall "Plan" illustrates the technique. American capital grown fat on war profits "came to the rescue" of capitalist Europe by lending money from year to year to be spent and used as prescribed by the American administrator (himself a big American capitalist). U.S. control was thus established over the margin between solvency and bankruptcy. The "plan" placed the foreign trade of the participant countries under U.S. control; it enabled the U.S. to cut them off from trade links with the Soviet Union. It took a host of vital decisions on economic matters out of the hands of the countries themselves. In short, it undermined their independence. The Foreign Aid Committee of the U.S. House of Representatives (the Herter Committee) showed the intention of the Marshall Plan. According to them, U.S. personnel were to determine how European production was to fit in with U.S. production; U.S. personnel were to determine which European plants should receive equipment from U.S.A. and to fix delivery schedules; U.S. personnel were to encourage co-ordination of industry in E.R.P. countries ("the administrator will be in a strategic position to encourage the various nations of Europe to share their own developments for their common benefit"); U.S. personnel were to participate in allocation of critical materials, to foster standardisation of equipment to be produced both in U.S. and in Europe. The report noted that the Communists suggest that all this is an infringement of national sovereignty and warned against the danger of upholding "a greatly distorted concept of sovereignty—one so rigid that it could make co-operative action almost an impossibility. For if absolute sovereignty blocks economic integration . . . human

freedom itself will be lost". And this, in practice, meant that the American administrator would, in asserting America's will, override the independence of the nations of Western Europe.

The next stage is the stage of rearmament and preparation for war. The U.S. imperialists force their "allies" to cripple their economies with vast military expenditure, and in America itself undertake military expenditure at a rate unparalleled in history, attaining $65,000 million in 1952 and absorbing more than one-third of the output of metal-working and construction industry. By these means the imperialists hope to conquer the world and meanwhile make ever-mounting profits.

The American war programme, however, does not solve the contradictions of capitalism, but intensifies them. It stimulates speculation and rising prices and makes it more and more difficult for civilian industry to carry on. The prices of consumer goods rise faster than incomes and the purchasing power of the masses becomes therefore, further restricted. As Stalin pointed out with reference to the fascist war economies before the Second World War: "Placing an economy of a country on war footing . . . . means giving industry a one-sided war direction; developing to the utmost the production of goods necessary to war and not for consumption of the population; restricting to the utmost the production and, especially, the sale of articles of general consumption—and, consequently, reducing consumption by the population and confronting the country with an economic crisis." (*Leninism*, p. 662.)

The Plight of British Imperialism

The policy of U.S. imperialism was particularly directed to weakening British imperialism, which, faced with demands from the working class in Britain, greatly strengthened independence movements throughout its empire and the squeeze from its more powerful American rival, lacked the resources with which to hold its empire in subjection. In order, therefore, to maintain its dominance British imperialism went into partnership with American imperialism. Inevitably this became an increasingly unequal partnership and one that was increasingly damaging to the very interests for the protection of which it had been sought.

" The war revealed ", said Zhdanov in September 1947, " that militarily and politically British imperialism was not so strong as it had been. . . . Britain found herself dependent, militarily and economically, upon American supplies of food and manufactured goods. After the war, Britain became increasingly dependent, financially and economically, on the United States. Although she succeeded in recovering her colonies after the war, Britain found herself faced there with the enhanced influence of American imperialism, which during the war had invaded all the regions that before the war had been regarded as exclusive spheres of influence of British capital (the Arab East, South-East Asia). America has also increased her

influence in the British dominions and in South America, where the former role of Britain is very largely and to an ever-increasing extent passing to the United States."

British capitalism emerged from the war greatly weakened also by losses and destruction* caused by the war, particularly in the Far East, and by the loss of overseas assets sold to pay for armaments.

All these new weaknesses were added to the technical backwardness of British industry. Technical stagnation in Britain was partly attributable to the special characteristics of British monopoly capitalism. Whereas at the end of the nineteenth century and beginning of the twentieth century the giant trusts of Germany and the U.S.A. had created entirely new plants using what were then most advanced techniques, the British monopolies' capital was to a greater extent embodied in production units which used obsolescent plant dating back to the mid-nineteenth century, and many British monopolies which had been formed by the amalgamation of medium-sized firms got extra profits solely from "ring" prices without changing the technical level of the industry. The surplus value accumulated by the British capitalist class did not go into home industry because it could find so often more profitable outlets overseas (particularly in the Empire). (By 1913 between one-third and one-quarter of British-owned capital was held overseas; in that year £225 million of capital were exported, probably more than home investments.)

The British capitalist class was able to maintain something of its former dominance after the First World War only as a result of the special circumstance that it had a larger empire than its rivals. Political control, protective tariffs, and other restrictions could be used to keep others out of Empire markets, to monopolise sources of raw materials, and to enable British capital to exploit colonial labour paid at starvation wages. At the same time the price paid by the British workers for the survival of British monopoly capitalism was wage-cuts in 1920-21, 1926, and 1931, and mass unemployment reaching unheard-of dimensions in the 1930s. Britain's underlying technical weakness is revealed by the following estimates (by Dr. Rostas) of output per worker per year in 1936-37.

(U.K. output = 100 in each instance)

	Germany	*U.S.A.*
Blast-furnace products	115	361
Smelting and rolling of iron and steel ...	114	168
Iron and Steel products	95	(400)
Machinery	110	(260)
Cement	92	106
Motor Cars	98	419

* Keynes (Cmd. 6707 p. 14) estimated over-all losses of "national wealth" as £7,300 million or 25 per cent of the total.

	Germany	U.S.A.
Cotton Spinning	120	120
Cotton Weaving	68	130
Rayon and Silk	132	160
Tobacco Manufacturing	30	171
Soap	117	279
Wheat Milling	93	160

(Overall U.S. output per worker was more than double Britain's.)

The transformation that the war brought in the economic position of British imperialism revealed itself in Britain's recurring "balance of payments" crises.

The root of these crises lay in Britain's inability, despite considerable increases in the volume of exports, to pay for the burden of imports that her military programmes required, together with other factors such as the loss of overseas investments during the war, overseas military expenditure and the forcing up of raw material prices by the U.S.A. to Britain's disadvantage. These crises were "the writing on the wall" for British imperialism. They showed that the traditional imperialist policies could only lead to national disaster; and that the road to freedom, prosperity and national independence must be by way of peace and free and equal association with the countries of the Empire, in place of exploitation. Such a road was indicated in the Communist Party's programme, *The British Road to Socialism*. But despite clear indications that the British Labour Movement longed for a change from the traditional imperialist policies, it had to pay the price for entrusting its leadership to Social-Democrats who, under cover of socialist phrases, in fact bolstered up monopoly capitalism and its imperialist policies.

The Role of Social-Democracy

When the Labour Government came into office in 1945 it talked much of "planning" and "Socialism", advocating in particular a "middle-way Socialism" that was altogether different from the Russian brand of Socialism. But in practice it pursued a purely capitalist policy, with only superficial trimmings of reform which it labelled "Socialism". Its only plan was the Cripps "Plan" in 1947 to cut capital investment. This "plan" accorded fully with the ideas of the monopoly capitalists as expressed by the Federation of British Industries. It was directed primarily against capital investments by the Government on social services and was designed to limit production for home use and to reduce the living standards of the masses. It made no attempt to curb the capitalist control of industry or to expand production in such a way as to meet the needs of the people. It made no attempt to base foreign trade on the solid foundation of trade agreements with the socialist sector of the world. It made no attempt to make the nationalised industries the basis of a planned economy. The nationalised industries continued to be

run by the old-style capitalist managements and the capitalist owners were liberally compensated for the tumble-down industries that they handed over to state ownership. (Compensation payments to the capitalists for the coal, gas, electricity, transport, and steel industries, and the Bank of England are estimated at approximately £2,500 million—*Labour Research,* December 1948.)

At the end of the Second World War almost every European government pledged itself to plan its country's economic reconstruction and to maintain full employment. Few politicians openly disputed the virtues of planning or dared not to promise full employment. The virtues of free enterprise and the beneficent effects of the price-mechanism of which the champions of capitalism used to make so much were at a discount. The extreme disorganisation of capitalist economy coupled with the deeper political understanding of the peoples who no longer had faith in capitalism accounted for the apparent conversion of post-war Europe to planning. Before long, however, it became evident that there were two profoundly different conceptions of planning, working-class and capitalist planning.

The plans of the New Democracies were working class, popular plans—that is, plans which served the interests of the workers and the people, plans carried out by the enthusiastic activity and participation of the workers and popular masses, plans which cut through capitalist property rights and were founded on far-reaching nationalisation of industry, plans supported and facilitated by state power being in the hands of the workers and their allies. On the other hand, planning in France and Britain, for example, was capitalist planning; it did not allow planning to interfere with the privileges and property rights of the monopoly capitalists, did not put the interests of the workers before those of the capitalists, worked within the framework of capitalist property relations and the capitalist State, had no broad basis of nationalised industry, and in such industries as were nationalised, it preserved the capitalist type of management. The capitalist plans were plans to preserve capitalism.

The Social Democratic theoreticians of planning in Britain were bourgeois economists who styled themselves Socialists, but were in fact most anxious not to disturb the economic relationships of capitalist production. Many such anti-Marxist " Socialists " figured prominently in the Labour Government. Their special brand of planning was also described as democratic planning and contrasted with " Communist " planning, which was described as totalitarian. The former style of planning, it was alleged, did not interfere with freedom, whereas the latter did. This allegation was in one sense correct; the Communist-inspired people's plans interfered with the freedom of the capitalists to exploit others, whereas the Social-Democratic plans did not interfere at all with the freedom of the capitalists. However, the people's plans depended for their success upon the freedom and initiative of the masses. For the workers they

were free and democratic; for the capitalists they were the opposite.

In other respects also the Social-Democrats, posing as Socialists, pursued a capitalist policy. For example, they used the usual arguments of the capitalist economists to hold back the workers from fighting for higher wages. Like the capitalist economists they argued that "the first cause" of inflation is rising wages, which cause prices to rise, which in turn leads to demands for increased wages, and so on. This is the famous doctrine of the "vicious spiral". It is a false doctrine. In the first place the excess of purchasing power which creates the inflationary pressure *is in the main in the hands of the capitalists*. An expansion in the total amount of money in circulation first of all appears as money in the hands of the capitalist,* and it is profits that get "blown up" first of all and far more rapidly than wages. Secondly, rising wages are not the cause of rising prices; capitalists (and especially monopolists) may be relied upon to raise prices as high as they can so as to maximise profits. In periods of scarcity the capitalists will raise prices anyhow, whether wages rise or do not rise. In periods of overproduction, even though wages were to rise, the very fact of relative overproduction would prevent price increases. In fact, the actual course of inflation teaches that prices always rise faster than wages; wages do not push prices up—at best, they chase prices.

Broadly speaking, the same arguments hold good even where there are price controls such as the Labour Government operated. Prices need not go up when wages go up, provided that the capitalists are forced to meet wage increases out of profits and by improving production technique. Wages, when there is price control, may, however, *appear* to cause prices to rise because the capitalists argue that their profit margin must be maintained and will ask for controlled prices to be raised when wages are raised. In practice the Labour Government left the power of the capitalist class intact. and allowed them repeatedly to increase controlled prices when wages were increased.

From what has been said it is not hard to see that the capitalists argue that inflation is due to high wages in order that the danger of inflation may be used as an excuse for cutting wages and increasing profit margins. In accepting this argument, the Social-Democrats take the side of the capitalists against the workers.

Throughout, the right-wing Labour leaders rejected any measures that challenged the right of the capitalists to make profits. They tried to deceive the workers by arguing that social ownership of the means of production was no longer a necessary part of Socialism. They produced new definitions of Socialism that amounted merely to state control of capitalism in a manner that coincided fully with the brands of state monopoly capitalism that are favoured by the most powerful monopoly capitalists themselves.

* See pp. 117 and 121-122.

After six years of "Socialist" government the foundations of capitalist power in Britain remained untouched. Britain remained an imperialist power degraded by exploitation and racial discrimination. Britain remained subject to the anarchic laws of capitalism, unable fully and freely to develop its human capacities, and overshadowed always by the threat of crisis and unemployment. The whole capitalist world was tied to the fortunes of America. The contradictions within American capitalism dictated its imperialist policy of expansion. It must find new markets and new fields for investment, or else face catastrophe. A compound of insolence and fear directed its policy; insolence bred of its vast economic resources and fear bred of the sense of impending crisis. The growing instability of the capitalist world stands face to face with the growing strength of the Socialist world.

For capitalism there is no solution. Its life can be prolonged only at the cost of misery, poverty, and war. Everywhere the contradictions of capitalism assert themselves. American imperialism claims to itself the holy mission of saving Europe and directs its attack against the organisations of the workers, those who produce. The producers are antagonised, and corrupt speculators, shady politicians, and retired fascists become America's " missionaries of freedom ". In this way the countries that America seeks to make safe for capitalism are brought with every success in her designs nearer to civil war and desolation. Greece is the living example. America talks of freedom, but to build up her type of freedom she must resurrect those who gave birth to the fascism of Germany or to the militarism of Japan. She talks of a plan for European recovery, but must entrust it to those who are at home only in the jungle of capitalist rivalries, whose world is the world of capitalist anarchy.

Capitalism therefore has no way forward. It leads to crisis and war. Marxism teaches why; but it also teaches that the contradictions of capitalism, the antagonisms between the workers and the capitalists, forge beneath the hammer blows of crisis and war the revolutionary workers who will lead their class and mankind forward to a world of plenty, free from exploitation and war. The present period is one of world transition to Socialism in which the forces of Socialism, confronting the forces of imperialism, daily gain in strength, economically, politically, and ideologically.

CONCLUSION

IT has been the aim of this book to show what capitalism is, how it functions, and how it develops, to show *the law of motion of capitalist society*. The key to the understanding of capitalism is the relationship between the capitalist class and the working class and the economic contradictions to which this gives rise. As capitalism develops, the gulf widens between the magnates of capitalism and the masses of the people. Capitalism's capacity to produce is further and further expanded but what the workers and the masses of the people get becomes relatively less and less as industry's power to produce becomes greater and greater. In the period of imperialism the gulf between the few magnates and the masses grows wider still. That all this is so, and why it must be so, the study of political economy demonstrates. When the reality is one of sharpening antagonistic contradictions, empty pleas for spiritual concord, for unity between capitalist and worker, for moral and economic reconstruction achieve nothing but confusion. The ideas and theories of capitalism (" the ideology " of capitalism, that is, the economic philosophical, religious, etc., theories reflecting the capitalist view of society) make play with feelings and beliefs that belong to an order of things that is passing away, misrepresent the problems that confront humanity and obscure the reality. These ideas and theories cannot change the reality; they can only confuse men's minds and delay the day when the masses become conscious of the reality and the part they must play to change it.

The ideas of Marxism, on the other hand, correspond to reality; they correspond also to the interests of the masses who desire to escape from crisis, poverty, and war to which capitalism gives rise. They not only reflect the true nature of the economic and social developments that are actually taking place in the world; they help to give conscious purpose and greater effectiveness to the part that the masses play in the transition of human society from the epoch of capitalism to the epoch of Socialism and Communism. The very successes of the capitalist politicians and the capitalist-minded men in the Labour movement, the Social Democrats, and the opponents of Marxism, lead but to confusion and sharpening contradictions within capitalist society. Where Marxism leads, social unity and economic stability increase; where capitalism and opposition to Marxism leads, confusion and dissensions increase and capitalism itself becomes less stable. The policies of capitalism are rotted by the social and economic contradictions of capitalism; the policies of Communism prosper because stage by stage they do away with these old contradictions and break the capitalist fetters on the forces of production and progress. The policies of Communism seek to strengthen what is new, what is growing, and to enable it to triumph over what is old and decaying; the policies of capitalism seek to buttress and patch up what is old and decaying.

Political economy thus teaches that history marches against capitalism and with Communism; it teaches that " all roads lead to Communism ".

Political economy teaches how wealth is produced and distributed. It teaches the worker how to protect his interests in the factory, shop, or mine. But it teaches, too, the economic law of motion of society, the causes of social change and *what men must do* to bring this change. Political economy therefore forms the very foundation of the world outlook of Marxism, which enables men to understand the world and to know how to act in it, which enables men to live and fight as men for the freedom of mankind everywhere from poverty, oppression, and war.

" We entirely stand ", writes Lenin, " on the basis of the theory of Marx; it was the first to transform Socialism from a utopia to a science, to fix the firm foundation of this science and to indicate the path along which it is necessary to proceed. . . . It laid bare the essence of modern capitalist economy, explaining the manner in which the hire of the labourer, the purchase of labour-power, masks the enslavement of millions of propertyless people by a handful of capitalists, the owners of the land, factories, mines, etc. It showed that the whole trend of capitalist development is towards the ousting of small production by large, and the creating of conditions which make a Socialist system of society possible and inevitable. It taught us to see under the veil of rooted customs, political intrigues, subtle laws and artful doctrines, the *class struggle*, the struggle between all species of propertied classes and the mass of non-possessors, *the proletariat*, which stands at the head of the propertyless. It made clear the real task of a revolutionary party: it is neither drawing up plans for the reconstruction of society, nor preaching sermons to the capitalists and their hangers-on about improving the lot of the workers, nor making conspiracies, *but the organisation of the class struggle of the proletariat and the leadership of this struggle, the final aim of which is the winning of political power by the proletariat and the organisation of a Socialist society.*" (*Marx-Engels Marxism*, p. 63.)

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Bold type indicates the pages on which can be found a brief definition of technical terms (shown in CAPITALS) used in Marxist economics.